

DOCUMENTS ON BRITISH FOREIGN POLICY 1919—1939

EDITED BY

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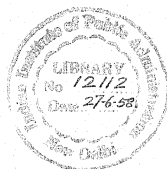
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PREFACE

TO VOLUME II, SECOND SERIES

CHAPTER I deals with the British attitude towards the proposals for an Austro-German Customs Union announced by the Austrian and German Governments in March 1931. These proposals, and the mode of their announcement, caused very considerable disquiet in France and in other European countries, since they were interpreted as contrary to the treaty engagements of Austria and as a first step towards the absorption of Austria by the German Reich. His Majesty's Government, while deploring the disturbing effect of the proposals upon the general political and economic situation, suggested that they should be referred to the Council of the League, with a view to obtaining an opinion on the legal aspect from the Permanent Court of International Justice. This suggestion was accepted, but the Austrian and German Governments withdrew their proposals before the Permanent Court pronounced a decision.

The reason for the withdrawal was the increasing seriousness of the financial and economic situation. The earlier period of crisis and the measures taken by His Majesty's Government with other Governments to relieve the German and Austrian financial position and to restore confidence are described in Chapter II. This chapter opens with the plans for the visit of Dr. Brüning and Dr. Curtius to London in the first week of June 1931. The discussions during the visit did not lead to any definite action, but in view of the increasing gravity of the financial situation, especially in Germany and Austria, President Hoover on his own initiative, and after consulting members of Congress, issued on June 20 a proposal for a moratorium of one year on all inter-governmental debts. His Majesty's Government at once accepted this proposal. The French Government, however, felt it necessary to impose certain conditions upon their acceptance. The greater part of Chapter II is concerned with the Franco-American negotiations over these proposed conditions, and with the attitude of His Majesty's Government towards the French proposals. The chapter also contains correspondence dealing with unsuccessful representations by His Majesty's Government to the German Government that the latter, while receiving financial help on a large scale, should not embark upon further expenditure on the construction of pocket battleships.

The favourable atmosphere created by President Hoover's proposal did not out-last the long-drawn Franco-American negotiations. Chapter III therefore deals with the rapid changes in the situation during the first three weeks of July owing to the continued deterioration of the German financial position. The negotiations of these weeks are extremely complicated, since His Majesty's Government disagreed with the views of the French Government on important details concerning the application of the Hoover

plan; while the negotiations on these points of disagreement were taking place, immediate action became necessary to stave off a general financial collapse in central Europe. His Majesty's Government had proposed (July 7) a meeting of experts on July 13 in London, to be followed a week later by a conference of Ministers. The conference of Ministers had to be postponed until agreement was reached with the French Government; it was held as a matter of urgency on July 20-3. The stenographic reports of the meetings are printed as Appendix I to this volume. The conference did little more than recommend, in addition to measures for maintaining German credit during the period of crisis, that the Bank for International Settlements should set up a Committee to inquire into the further credit needs of Germany. The report of this Committee is printed as Appendix II to this volume.

The chapter concludes with records of the visit of Mr. MacDonald and Mr. Henderson to Germany on July 27-9.

Chapter IV deals with the confused political and financial situation from the conclusion of the London Conference to the formation of Dr. Brüning's second Cabinet in October 1931. The chapter contains correspondence with regard to (i) the Committee appointed by the Bank for International Settlements, (ii) the announcement on September 20 by His Majesty's Government of the suspension of the Gold Standard Act of 1925, (iii) the visit of MM. Laval and Briand to Berlin in September, (iv) the visit of the Marquess of Reading (who had succeeded Mr. Henderson as Secretary of State for Foreign Affairs on the formation of a National Government) to Paris in October.

The last document in the chapter gives Sir H. Rumbold's views on the political situation in Germany with special reference to a meeting of the 'National Opposition' on October 11 at which Dr. Hugenberg and Herr Hitler made speeches.

Chapter V continues the history of the negotiations arising out of the Hoover moratorium and the German financial crisis. M. Laval visited Washington in October. The German Government was then recommended to apply for the appointment of the 'Special Advisory Committee' envisaged under the Young Plan in the event of serious difficulties in the transfer of the postponable part of the reparation annuities. After agreement with the French Government upon the terms of reference this application was made on November 20. It was also proposed that a conference of governments should be held to consider the report of the Special Advisory Committee, but agreement had not been reached by the middle of December upon the place or time of meeting of this conference. The Special Advisory Committee reported on December 23. The report is printed as Appendix III to this volume.

The chapter includes further reports from His Majesty's Embassy in Berlin on the political situation in Germany. These reports deal especially with the activities of the National Socialist party.

Chapter VI is concerned with the correspondence and negotiations arising out of an unexpected difficulty with regard to the Franco-Italian agreement of March 1, 1931, on naval construction (see Volume I of this series) owing to

the interpretation put by the French Government upon certain clauses in the terms of the agreement. His Majesty's Government made great efforts during the rest of the year to find a formula acceptable both to the French and Italian Governments, but no agreement had been reached at the time of the opening of the Disarmament Conference in 1932.

The volume ends with a report (Appendix IV) on German military activities during the year 1931.

As was explained in the general preface printed at the head of Volume I of the Second Series of this Collection, the Editors have been given unreserved access to the whole of the Foreign Office archives and complete independence both in the general planning of each series and in the choice and arrangement of documents. They therefore take full responsibility for the selection which they have made.

The work of the Editors has been greatly assisted by the staff of the Foreign Office Library. In particular I should like to thank Mr. H. K. Grey, M.B.E., and other members of the staff of the Reference Room of the Library for their continued and successful help in tracing documents. I also wish to thank Miss A. Norman, M.B.E., for her help in preparing the material and in compiling the summary of contents of this volume.

In December 1946 the Hon. Margaret Lambert, Ph.D., joined the Editors in their work and has shared in the later stages of the production of this volume.

E. L. WOODWARD

NOTE

TO VOLUME II

IN order to make clear the sequence of events it has been necessary to give the hour as well as the day of dispatch and receipt of certain telegrams printed in this volume.

It should be pointed out, however, that the hour of receipt of a cyphered telegram in the Foreign Office means the hour at which this telegram was handed to the Department responsible for the work of decyphering. Immediately after a telegram has been decyphered copies of it are made and put into circulation. Telegrams are normally decyphered at once, but delays may occur in the case of sudden and unexpected pressure of business. There is thus a short interval between the hour of receipt marked on the telegram and the time at which it is actually read by the Secretary of State or by officials of the Department.

The hour of dispatch marked on a telegram, whether from the Foreign Office or from H.M. Missions abroad, is the hour at which the telegram, after being cyphered, is sent for transmission to its destination. Here again an interval must be reckoned between the delivery of the telegram to the cyphering department and the actual hour of dispatch.

If account is taken of those two minor 'time-lags' it will be clear why an out-going telegram seems at times to take no account of an incoming telegram received before the dispatch of the former.

The hour of dispatch, in the case of telegrams from H.M. Missions abroad, is always local time.

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CHAPTER SUMMARIES

CHAPTER I

Correspondence with regard to Proposals for an Austro-German Customs Union (March 21–May 18, 1931)

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
1 Note from French Ambassador	Mar. 20	Draws attention to proposed Austro-German Customs Union and suggests representations to Austrian Government.	1
2 Note by SIR R. VANSITTART	Mar. 21	Report of interview with Austrian Minister on proposed Customs Union. Encloses documents communicated by Austrian Minister.	2
3 To SIR H. RUMBOLD Berlin No. 286	Mar. 25	Reports interview with German Ambassador regarding proposed Customs Union, and transmits protocol regarding Customs Union and note from French Ambassador regarding attitude of French Government.	5
4 SIR H. RUMBOLD Berlin Tel. No. 17	Mar. 23	Reports interview with Minister for Foreign Affairs.	11
5 LORD TYRRELL Paris Tel. No. 1 to Berlin and Vienna (Tel. No. 55 to F.O.)	Mar. 25	Text of telegrams sent by Mr. Henderson to Berlin and Vienna suggesting reference of question to Council of League of Nations.	12
6 SIR E. PHIPPS Vienna Tel. No. 1 to Paris (Tel. No. 12 to F.O.)	Mar. 25	Text of telegram sent to Mr. Henderson (in Paris) reporting delivery of message in No. 5.	13
7 SIR H. RUMBOLD Berlin Tel. No. 1 to Paris (Tel. No. 20 to F.O.)	Mar. 25	Text of telegram sent to Mr. Henderson (in Paris) reporting interview with Dr. Brüning regarding proposal in No. 5.	13
8 SIR H. RUMBOLD Berlin Tel. No. 2 to Paris (Tel. No. 21 to F.O.)	Mar. 25	Further account of conversation with Dr. Brüning, who defended Germany's right to make the agreement with Austria.	14
9 SIR E. PHIPPS Vienna Tel. No. 2 to Paris (Tel. No. 13 to F.O.)	Mar. 25	Text of telegram sent to Mr. Henderson (in Paris) reporting reply of Austrian Government to proposal in No. 5.	15
10 SIR E. PHIPPS Vienna Tel. No. 3 to Paris (Tel. No. 14 to F.O.)	Mar. 25	Text of telegram to Mr. Henderson (in Paris) regarding the difference between the German and Austrian replies.	15
11 LORD TYRRELL Paris Tel. No. 2 to Berlin (Tel. No. 57 to F.O.)	Mar. 26	Text of telegram sent by Mr. Henderson to Berlin, enjoining further representations to the German Government.	16

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
12 SIR H. RUMBOLD Berlin Tel. No. 6 to Paris (Tel. No. 59 to F.O.)	Mar. 26	Text of telegram to Mr. Henderson (in Paris) reporting result of representations requested in No. 11.	16
13 To SIR H. RUMBOLD Berlin No. 345	Apr. 9	Reports interview between Mr. Henderson and M. Briand in Paris on March 25.	17
14 SIR H. RUMBOLD Berlin Tel. No. 26	Mar. 26	Reports Sir H. Rumbold's views on German attitude towards the proposed Customs Union.	18
15 To SIR H. RUMBOLD Berlin No. 322	Mar. 31	Reports interview between Mr. Henderson and M. Briand in Paris on March 26.	19
16 LORD TYRRELL Paris Tel. No. 61	Mar. 27	Summarizes French attitude towards proposed Customs Union.	20
17 SIR H. RUMBOLD Berlin No. 221	Mar. 27	Reports attitude of German Government towards proposal that question should be submitted to the League of Nations.	21
18 To SIR H. RUMBOLD Berlin No. 303	Mar. 28	Reports conversation between Sir R. Vansittart and the German Ambassador.	23
19 SIR H. RUMBOLD Berlin Tel. No. 28	Mar. 30	Warns against possible dangerous developments of dispute over Customs Union.	24
20 To SIR R. GRAHAM Rome No. 370	Mar. 30	Transmits draft memorandum proposed by French Government for communication to Austrian Government by signatories of Protocol No. 1 of 1922, and reports statement by Mr. Henderson in House of Commons.	24
21 SIR E. PHIPPS Vienna Tel. No. 16	Mar. 30	Reports Dr. Schober's statement on proposed Customs Union to Heads of Foreign Missions.	27
22 SIR H. RUMBOLD Berlin No. 228	Mar. 30	Discusses origin of proposed Customs Union in the light of private conversations.	28
23 SIR E. PHIPPS Vienna Tel. No. 17	Mar. 31	Reports interview with Dr. Schober.	30
24 SIR E. PHIPPS Vienna Tel. No. 18	Mar. 31	Further report on interview with Dr. Schober.	30
25 SIR E. PHIPPS Vienna No. 124	Apr. 8	Reports interview between French Minister and Dr. Schober.	30
26 To Secretary-General of League of Nations	Apr. 10	Letter from Mr. Henderson requesting that question of proposed Customs Union be placed on agenda of Council of League of Nations.	31

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
27 To SIR H. RUMBOLD Berlin No. 394	Apr. 16	Reports interview with German Ambassador on April 16 and transmits text of note left by him regarding agenda of meeting of Commission of Inquiry into European Union.	32
28 SIR H. RUMBOLD Berlin No. 292	Apr. 17	Transmits memorandum by Commercial Counsellor reporting a conversation with Dr. Ritter, of the Ministry for Foreign Affairs, regarding German attitude towards proposed Customs Union.	33
29 To SIR H. RUMBOLD Berlin Tel. No. 37	May 1	Reports representations made to German Ambassador on May 1.	38
30 To SIR E. PHIPPS Vienna Tel. No. 15	May 4	Reports representations made to Austrian Minister on May 4.	39
31 To LORD TYRRELL Paris No. 1058	May 4	Reports interview with French Ambassador and transmits summary of French proposals for dealing with question of proposed Customs Union.	39
32 To SIR R. GRAHAM Rome No. 527	May 4	Transmits memorandum communicated by Italian Ambassador regarding Italian attitude to proposed Customs Union.	42
33 SIR H. RUMBOLD Berlin Tel. No. 39	May 6	Summary of an interview with Herr von Bülow in which the latter defined the German point of view towards the proposed Customs Union.	43
34 SIR H. RUMBOLD Berlin No. 337	May 6	Transmits record of conversation between Commercial Counsellor and Dr. Ritter, and reports subsequent conversation with Herr von Bülow summarized in No. 33.	45
35 LORD TYRRELL Paris No. 534	May 7	Reports conversation with M. Coulondre, of the Ministry for Foreign Affairs, regarding French inducements to Germany to accept French proposals.	50
36 To MR. N. HENDERSON Belgrade No. 173	May 11	Transmits memorandum summarizing views of H.M.G. regarding proposed Customs Union as expressed to Yugoslav, Czechoslovak, and Roumanian Ministers in London.	51
37 To LORD TYRRELL Paris No. 1127	May 11	Transmits copy of <i>aide-mémoire</i> handed to French Ambassador on May 11 summarizing views of H.M.G. on French proposals.	53
38 MR. PATTESON Geneva Tel. No. 31 (L. of N.)	May 15	Reports private discussion of Secretary of State with M. Briand, Dr. Curtius, and Signor Grandi on procedure to be followed in dealing with proposed Customs Union.	56
39 League of Nations	May 18	Request of Council of League to Permanent Court of International Justice for advisory opinion as to compatibility of proposed Customs Union with treaty obligations of Austria.	56

CHAPTER II

Visit of Dr. Brüning and Dr. Curtius to London: President Hoover's proposal for a year's postponement of payments on inter-governmental debts: correspondence with the American, French, and German Governments with regard to the German financial crisis and President Hoover's proposals (April 2-July 7, 1931)

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
40 To SIR H. RUMBOLD Berlin No. 327	Apr. 2	Visit of German Ministers to London. Reports discussion with M. Briand in Paris regarding proposed visit.	58
41 To SIR H. RUMBOLD Berlin Tel. No. 26	Apr. 9	Reports discussions as to date of visit.	59
42 To SIR H. RUMBOLD Berlin Tel. No. 32	Apr. 21	Asks what staff will be brought and what subjects Drs. Brüning and Curtius wish to discuss.	59
43 SIR H. RUMBOLD Berlin No. 321	May 1	Reparations. Forecasts German attitude in view of Dr. Brüning's forthcoming visit to London.	60
44 Note by MR. A. HENDERSON	May 22	Visit of German Ministers to London. Note of a conversation with M. Briand at Geneva on the forthcoming visit.	62
45 SIR H. RUMBOLD Berlin No. 397	May 29	German political situation. Appreciation of political situation in view of visit of German Ministers to London.	63
46 SIR H. RUMBOLD Berlin No. 400	June 3	Reports meeting of Stahlhelm at Breslau on June 1.	65
47 SIR H. RUMBOLD Berlin Tel. No. 53	June 4	Visit of German Ministers to London. Explains reactions of visit upon German internal politics.	67
48 To SIR W. ERSKINE Warsaw No. 375	June 6	German-Polish relations. Transmits record of interview with Polish Ambassador, who drew attention to Stahlhelm demonstration at Breslau.	68
49 SIR R. LINDSAY Washington Tel. No. 313	June 6	German financial situation. Reports interview with United States Secretary of State regarding German manifesto of June 6.	69
50 SIR R. LINDSAY Washington Tel. No. 315	June 6	Continuation of No. 49.	70
51 To MR. YENCKEN Berlin No. 627	June 13	Visit of German Ministers to London. Transmits record of conversations at Chequers on June 7.	71
52 SIR H. RUMBOLD Berlin No. 413	June 11	Reports conversations with Drs. Brüning and Curtius on their return to Berlin.	77
53 MR. YENCKEN Berlin Tel. No. 60	June 12	German financial situation. Reports critical situation owing to decision of People's party to vote for convocation of Reichstag.	79

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
54 MR. YENCKEN Berlin Tel. No. 61	June 13	Reports probable rise in bank rate.	79
55 To LORD TYRRELL Paris Tel. No. 101	June 15	Comments on general situation arising from German economic and financial crisis.	79
56 To SIR R. LINDSAY Washington Tel. No. 369	June 15	Authorizes communication of No. 55 to U.S. Government.	80
57 MR. NEWTON Berlin Tel. No. 64	June 15	Reports on financial situation.	81
58 Memorandum by Mr. THELWALL Berlin	June 8	Memorandum by Commercial Counsellor at Berlin on causes and probable effects of crisis.	81
59 SIR E. PHIPPS Vienna No. 234	June 17	Austro-German Customs Union. Reports Dr. Schober's personal view that Customs Union plan could not be put into operation.	84
60 MR. NEWTON Berlin Tel. No. 70	June 18	German financial crisis. Reports conversation between Financial Adviser and Dr. Ritter regarding imminence of general moratorium in Germany.	85
61 MR. NEWTON Berlin Tel. No. 71	June 19	Comments on growing belief in Germany in necessity of reducing reparation payments.	86
62 SIR R. LINDSAY Washington Tel. No. 333	June 20	Hoover moratorium. Outlines President Hoover's proposal in regard to inter-governmental debts as explained by United States Secretary of State.	87
63 SIR R. LINDSAY Washington Tel. No. 334	June 20	Reports conversation with Mr. Ogden Mills, Under-Secretary of United States Treasury, who further explained President Hoover's proposal and procedure to be followed.	87
64 SIR R. LINDSAY Washington Tel. No. 335	June 20	Summarizes points on which Mr. Mills would like suggestions from British Treasury.	88
65 SIR R. LINDSAY Washington Tel. No. 336	June 20	Recommends temporary appointment at Embassy of expert on reparation, in view of need for close co-operation between American and British Treasuries.	88
66 MR. NEWTON Berlin Tel. No. 76	June 21	Reports summary of appeal telegraphed by President Hindenburg to President Hoover.	88
67 SIR R. LINDSAY Washington Tel. No. 340	June 21	Reports premature announcement of President Hoover's proposal and comments on procedure to be followed.	89
68 SIR R. LINDSAY Washington Tel. No. 341	June 21	Reports attitude adopted by His Majesty's Embassy towards President Hoover's proposals.	90

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
69 To SIR R. LINDSAY Washington Tel. No. 405	June 22	Indicates attitude of H.M.G. towards President Hoover's proposal and suggests exclusion of certain classes of international debts.	90
70 SIR R. LINDSAY Washington Tel. No. 343	June 22	Reports reaction of U.S. Government to suggestion to except relief debts from scope of moratorium.	92
71 MR. NEWTON Berlin Tel. No. 77	June 22	Reports effect on German markets of President Hoover's proposal.	92
72 To SIR R. LINDSAY Washington Tel. No. 410	June 22	Transmits statement by Prime Minister in House of Commons accepting President Hoover's proposal.	92
73 To SIR R. LINDSAY Washington No. 420	June 23	States that any information or advice on points suggested by Mr. Mills will be gladly furnished.	93
74 To SIR R. LINDSAY Washington Tel. No. 421	June 23	Further explanation of attitude of H.M.G. towards President Hoover's proposal.	93
75 To EARL GRANVILLE Brussels No. 397	June 23	Transmits record of conversations between Sir R. Vansittart, the Belgian Chargé d'Affaires, and the Hungarian Minister on President Hoover's proposal.	94
76 To LORD TYRRELL Paris No. 1526	June 23	Transmits record of conversation between Sir R. Vansittart and French Ambassador on June 22.	95
77 SIR R. GRAHAM Rome Tel. No. 154	June 24	Text of Italian reply to President Hoover's proposal.	97
78 SIR R. GRAHAM Rome Tel. No. 155	June 24	Comments on reported linking of Italian acceptance with question of Austro-German Customs Union.	97
79 EARL GRANVILLE Brussels Tel. No. 14	June 24	Reports interview with Minister for Foreign Affairs regarding attitude of Belgian Government.	98
80 To SIR R. LINDSAY Washington Tel. No. 423	June 24	Text of statement by Chancellor of Exchequer in House of Commons on June 24 regarding attitude of H.M.G.	98
81 LORD TYRRELL Paris Unnumbered Tel.	June 24	Gives details of French reply to President Hoover's proposal.	100
82 SIR R. GRAHAM Rome Tel. No. 157	June 24	Reports comments made by Minister for Foreign Affairs on Italian attitude.	101
83 SIR R. LINDSAY Washington Tel. No. 351	June 24	Reports reception in Washington of French and Italian replies.	102
84 SIR R. LINDSAY Washington Tel. No. 352	June 24	Comments on reaction of State Department to attitude adopted towards President Hoover's proposal by H.M.G.	102
85 SIR R. LINDSAY Washington Tel. No. 353	June 24	Reports appreciation of Under-Secretary of State at Chancellor of Exchequer's statement.	103

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
86 SIR R. GRAHAM Rome Tel. No. 159	June 25	Translation of telegram instructing Italian Ambassador at Washington as to Italian attitude.	103
87 To SIR R. LINDSAY Washington Tel. No. 442	June 26	Comments on question of attaching political conditions to acceptance of President Hoover's proposal.	104
88 To SIR R. LINDSAY Washington Tel. No. 446	June 27	Explains views of British Treasury on French proposals regarding unconditional annuity.	105
89 SIR R. LINDSAY Washington Tel. No. 372	June 27	Reports discussion with Acting Secretary of State of question of attaching political conditions to acceptance of moratorium.	107
90 LORD TYRRELL Paris Tel. No. 133	June 28	Reports text of resolution passed in Chamber of Deputies supporting French Government and draws attention to popular support for maintaining unconditional annuity.	107
91 LORD TYRRELL Paris Tel. No. 135	June 28	Reports speech by French Prime Minister in Chamber regarding France's intention to make her acceptance subject to political conditions.	108
92 SIR R. LINDSAY Washington Tel. No. 374	June 28	U.S. Government concur in views of British Treasury expressed in No. 88 and suggest that French Government should be similarly informed.	109
93 To MR. NEWTON Berlin Tel. No. 112	June 29	Austro-German Customs Union. Instructs Mr. Newton to act with United States Ambassador in urging on Dr. Curtius desirability of getting question out of the way.	109
94 To SIR R. LINDSAY Washington Tel. No. 449	June 29	Instructions to ask State Department to send instructions to Berlin for action suggested in No. 93.	110
95 SIR R. LINDSAY Washington Tel. No. 381	June 30	Hoover moratorium. Reports tentative plans of U.S. Government in view of situation created by French attachment of conditions to acceptance of President Hoover's proposal.	110
96 SIR R. LINDSAY Washington Tel. No. 382	June 29	Reports list of States accepting President Hoover's proposal.	111
97 SIR R. LINDSAY Washington Tel. No. 383	June 30	Austro-German Customs Union. Refers to No. 94, and summarizes instructions sent to United States Ambassador.	111
98 MR. NEWTON Berlin Tel. No. 87	June 30	Refers to No. 93, and reports that Dr. Curtius received representations without comment.	111
99 MR. NEWTON Berlin Tel. No. 88	June 30	Hoover moratorium. Reports conversation with United States Ambassador regarding French desire to attach political conditions to acceptance of moratorium.	112
100 To SIR R. LINDSAY Washington Tel. No. 451	June 30	Instructions to inform U.S. Government of conversation on June 29 between Sir F. Leith-Ross and French Treasury official.	112

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101 To SIR R. LINDSAY Washington Tel. No. 452	June 30	Reports text of formula handed to French Treasury official by Sir F. Leith-Ross on June 29.	113
102 SIR R. LINDSAY Washington Tel. No. 385	June 30	Reports conversation with Acting Secretary of State regarding French attitude towards Hoover plan.	114
103 To SIR R. LINDSAY Washington Tel. No. 458	July 1	Reports that French Government is being sounded as to possibility of immediate conference in London.	114
104 To MR. NEWTON Berlin Tel. No. 118	July 1	German naval construction. Instructions to support United States Ambassador in advice to German Government to suspend expenditure on building of 'pocket battleships'.	115
105 To MR. NEWTON Berlin Tel. No. 120	July 1	Austro-German Customs Union. German naval construction. Reports conversation with German Ambassador regarding the unfavourable effect of German naval construction and proposed Customs Union on the chances of Hoover moratorium being accepted.	115
106 MR. NEWTON Berlin Tel. No. 91	July 1	Reports unwillingness of Dr. Curtius to make concessions on the question of 'pocket battleships', and to agree to the renunciation of the Customs Union unless the Hoover plan were accepted by the French Government.	116
107 To SIR R. LINDSAY Washington Tel. No. 464	July 1	Hoover moratorium. Instructions to inform State Department that suggested conference would not prejudice President Hoover's proposal to repeat his offer individually and separately.	117
108 SIR R. LINDSAY Washington Tel. No. 386	July 1	Reports United States representations to French Government and alternative scheme considered by U.S. Government.	117
109 SIR R. LINDSAY Washington Tel. No. 387	July 1	German naval construction. Reports U.S. Government's representations to German Government to postpone construction.	117
110 SIR R. LINDSAY Washington Tel. No. 388	July 1	Hoover moratorium. Reports that U.S. Government favour idea of conference.	118
111 To MR. NEWTON Berlin Tel. No. 122	July 2	German naval construction. Instructions to support United States representations with regard to German naval construction.	118
112 To SIR R. LINDSAY Washington Tel. No. 468	July 2	Hoover moratorium. Reports French reply to proposal to hold conference.	118
113 To MR. NEWTON Berlin Tel. No. 124	July 2	German naval construction. Explains dissatisfaction of H.M.G. at German refusal to postpone naval construction.	119
114 LORD TYRRELL Paris Unnumbered Tel.	July 2	Hoover moratorium. Summarizes points at issue between French and U.S. Governments.	120

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
115 SIR R. LINDSAY Washington Tel. No. 389	July 2	Reports that President Hoover favours proposed conference and urges a suitable announcement of its meeting.	120
116 To MR. NEWTON Berlin Tel. No. 126	July 2	Instructions to inform German Government of position regarding proposed conference.	121
117 To SIR R. LINDSAY Washington Tel. No. 475	July 2	Reports treasury view of alternative United States proposal for reparations mentioned in No. 108.	121
118 LORD TYRRELL Paris No. 725	July 2	German naval construction. Text of note to French Government reporting the representations made by H.M.G. to the German Government.	122
119 To LORD TYRRELL Paris Tel. No. 166	July 3	Hoover moratorium. Outlines attitude of H.M.G. towards question of guarantee fund and assistance to Central Europe.	123
120 MR. NEWTON Berlin Tels. Nos. 94 and 95	July 3	German naval construction. Describes representations made to Minister for Foreign Affairs.	124
121 LORD TYRRELL Paris Tel. No. 141	July 3	Hoover moratorium. Emphasizes desirability of some concession to French feeling, particularly as regards guarantee fund and assistance to Central European countries.	125
122 MR. NEWTON Berlin Tel. No. 97	July 3	German naval and military expenditure. Summarizes draft statement to be issued by German Government regarding naval construction during Hoover Year.	126
123 To LORD TYRRELL Paris Tel. No. 168	July 3	Hoover moratorium. Explains difficulty of making concessions suggested in No. 121.	127
124 MR. NEWTON Berlin Tel. No. 98	July 3	German naval and military expenditure. Describes representations made to German Minister for Foreign Affairs.	129
125 MR. NEWTON Berlin Tel. No. 99	July 3	Hoover moratorium. Reports assurance by German Minister for Foreign Affairs that relief obtained by moratorium would not be used to reduce yield from emergency decree, but would be used solely to strengthen Germany's financial and economic position.	130
126 LORD TYRRELL Paris Unnumbered Tel.	July 4	Text of communiqué regarding Franco-American negotiations.	130
127 LORD TYRRELL Paris Tel. No. 143	July 4	Describes progress of Franco-American negotiations.	131
128 MR. NEWTON Berlin Tel. No. 100	July 4	German naval and military expenditure. Reports that United States Ambassador is for the moment refraining from obtaining authority to press German Government.	132

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
129 SIR R. LINDSAY Washington Tel. No. 395	July 4	Hoover moratorium. Suggestion made to Mr. Castle that if President Hoover's offer were restated, stipulation should be made that annuities should be pushed forward a year and not refunded over a period of years.	132
130 SIR R. LINDSAY Washington Tel. No. 396	July 4	German financial situation. Reports statement by German Chancellor to United States Ambassador in Berlin on increased seriousness of financial situation.	133
131 To SIR R. LINDSAY Washington Tel. No. 494	July 4	German naval and military expenditure. Instructions to ask U.S. Government whether they would support advice given by H.M.G. in Berlin.	133
132 SIR R. LINDSAY Washington Tel. No. 398	July 5	Hoover moratorium. Reports bases of agreement reached between U.S. Government and French Government and difference of views over deliveries in kind. Inquires views of H.M.G.	133
133 SIR R. LINDSAY Washington Tel. No. 399	July 5	Text of draft formula discussed between French and U.S. Governments regarding political conditions. Inquires views of H.M.G.	134
134 LORD TYRRELL Paris Tel. No. 145	July 5	Summarizes bases of agreement between French and U.S. Governments and difficulty over deliveries in kind. Asks views of H.M.G. on latter point.	135
135 To LORD TYRRELL Paris Tel. No. 176	July 5	Views of H.M.G. regarding deliveries in kind, repayment of postponed annuity, creation of special fund for Central and Eastern Europe, guarantee fund, and political conditions.	137
136 To LORD TYRRELL Paris Tel. No. 177	July 5	States that in view of H.M.G. it might be expedient for U.S. Government to repeat President Hoover's offer to each Government individually.	138
137 LORD TYRRELL Paris Tel. No. 146	July 6	Reports further Franco-American discussions regarding deliveries in kind.	138
138 LORD TYRRELL Paris Tel. No. 147	July 6	Reports further discussions in view of President Hoover's objections to various points in bases of agreement with French Government.	139
139 LORD TYRRELL Paris Tel. No. 148	July 6	Reports fresh draft of bases of agreement put forward by U.S. Government.	139
140 LORD TYRRELL Paris Tel. No. 150	July 6	Describes progress of Franco-American discussions.	140
141 LORD TYRRELL Paris Tel. No. 151	July 6	Reports Havas communiqué to effect that Hoover scheme was accepted in principle and that French Government would convoke a conference to arrange its application.	140

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
142 Mr. NEWTON Berlin Tel. No. 102	July 6	German naval and military expenditure. German and U.S. Governments have agreed to issue by the former of draft statement summarized in No. 122.	141
143 Sir R. LINDSAY Washington Tels. Nos. 401 and 402	July 6	Hoover moratorium. Reports conversation with Mr. Castle and Mr. Mills regarding details of applying Hoover scheme.	141
144 Sir R. LINDSAY Washington Tel. No. 403	July 6	Further report of conversation with Mr. Castle and Mr. Mills.	142
145 Sir R. LINDSAY Washington Tel. No. 404	July 6	Reports statement issued to press with regard to negotiations with the French Government.	143
146 Sir R. LINDSAY Washington Tel. No. 405	July 6	Austro-German Customs Union. Reports conversation with Acting Secretary of State. United States Ambassador in Berlin authorized to explain United States views to German Government.	144
147 Sir R. LINDSAY Washington Tel. No. 407	July 6	Hoover moratorium. Reports agreement between French and U.S. Governments. Latter suggest that H.M.G. should summon conference.	145
148 Lord TYRRELL Paris Unnumbered Tel.	July 7	Text of Franco-American agreement regarding application of Hoover scheme.	145

CHAPTER III

Further correspondence with regard to the German financial crisis:
Mr. Henderson's visit to Paris: the London Conference: visit of
Mr. Macdonald and Mr. Henderson to Berlin (July 7-31, 1931)

149 To Lord TYRRELL Paris Tel. No. 178	July 7	Hoover moratorium. Proposes conference of experts in London on July 13 followed by meeting of Ministers.	147
150 Lord TYRRELL Paris Tel. No. 152	July 7	Reports French attitude regarding proposal to hold a conference.	147
151 To H.M. Representatives at Brussels, Paris, Rome, and Washington	July 7	Instructions to inform U.S., French, Italian, and Belgian Governments of Dr. Curtius's assurances that moratorium would not be used to reduce yield of German emergency decree.	148
152 To Mr. NEWTON Berlin Tel. No. 138	July 7	Reports instructions sent in No. 151.	148
153 To Sir R. LINDSAY Washington Tel. No. 507	July 7	Explains why German statement regarding use to be made of sums released under Hoover scheme is inadequate.	148
154 To Sir W. ERSKINE Warsaw Tel. No. 458	July 7	German-Polish relations. Reports conversation with Polish Ambassador in London.	150

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
155 MR. NEWTON Berlin Tel. No. 105	July 7	Hoover moratorium. Reports attitude of German press.	150
156 MR. NEWTON Berlin Tel. No. 106	July 7	Reports statement to press by Minister of Finance on Government statement.	150
157 MR. NEWTON Berlin Tel. No. 107	July 7	Reports details of German reaction to Franco-American bases of agreement.	151
158 LORD TYRRELL Paris Tel. No. 154	July 7	Urges need of securing French confidence in German intentions.	152
159 SIR R. LINDSAY Washington Tel. No. 408	July 7	Analyses opinion in United States on President's statement that agreement had been reached with French Government.	152
160 LORD TYRRELL Paris Tel. No. 155	July 8	Communicates reply of French Government to suggestion of conference in London.	153
161 TO LORD TYRRELL Paris Tel. No. 182	July 8	Replies to question in No. 160 and announces issue of invitation for meeting of experts.	154
162 LORD TYRRELL Paris Unnumbered Tel.	July 8	Reports communication made to French Minister for Foreign Affairs regarding proposed conference.	155
163 LORD TYRRELL Paris Unnumbered Tel.	July 8	Reports reservations to which French Government agreement to meeting of experts is subject.	155
164 SIR R. LINDSAY Washington Tel. No. 411	July 8	Reports U.S. Government ready to accept invitation to send representative to conference.	156
165 SIR R. LINDSAY Washington Tel. No. 413	July 8	Reports attitude of U.S. Government towards German statement.	156
166 LORD TYRRELL Paris Tel. No. 156	July 9	Communicates substance of letter from M. Berthelot with regard to Franco-American agreement.	157
167 TO LORD TYRRELL Paris Tel. No. 183	July 9	Communicates attitude of H.M.G. to reserves formulated by French Government.	157
168 TO LORD TYRRELL Paris Tel. No. 185	July 9	Explains difficulties of H.M.G. in regard to guarantee fund.	158
169 TO SIR R. LINDSAY Washington Tel. No. 510	July 9	States that presence of United States experts is desired and that issue of all invitations is delayed only on points of date and procedure.	159
170 TO MR. NEWTON Berlin Tel. No. 145	July 9	Communicates substance of interview between German Ambassador and Sir R. Vansittart regarding possible meeting of Ministers.	159

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
171 To H.M. Representatives at Brussels, Rome, Tokyo, Belgrade, Lisbon, Athens, Bucharest, and Warsaw.	July 9	Communicates text of letter from His Majesty's Treasury to President of Bank of International Settlements.	160
172 To Mr. NEWTON Berlin No. 741	July 9	German naval construction. Communicates substance of interview with German Ambassador regarding possibility of abandonment of work on new German battleship or other gesture.	161
173 To Sir R. LINDSAY Washington No. 973	July 9	German financial crisis. Communicates substance of interview with United States Chargé d'Affaires relative to visit of His Majesty's Ministers to Berlin and Paris.	162
174 Lord TYRRELL Paris Tel. No. 157	July 10	Communicates substance of conversation with M. Berthelot.	163
175 To Lord TYRRELL Paris Tel. No. 194	July 10	Communicates reasons for immediate issue of invitations.	164
176 To H.M. Representatives at Berlin, Brussels, Paris, Rome, Tokyo, and Washington	July 10	Communicates instructions to issue invitations to meeting of financial experts.	164
177 To H.M. Representatives at Paris, Washington, and Berlin	July 10	Encloses Treasury appreciation of the financial situation in Berlin.	164
178 Mr. NEWTON Berlin Tel. No. 111	July 10	Reports attitude of German press to English press suggestions of German gesture.	166
179 Lord TYRRELL Paris Tel. No. 160	July 10	Submits considerations prior to Anglo-French discussions.	166
180 Mr. NEWTON Berlin No. 483	July 8	Reports grant of guarantee by German finance and industry to Gold Discount Bank.	168
181 Mr. NEWTON Berlin Tel. No. 112	July 11	Reports desperate financial position of Reichsbank.	169
182 Mr. NEWTON Berlin Tel. No. 113	July 11	Reports losses of foreign exchange for July 10 and 11.	170
183 Mr. NEWTON Berlin Tel. No. 114	July 12	Reports (1) conversation with Herr von Bülow on possibility of political concessions in return for financial aid, and (2) articles in <i>Berliner Tageblatt</i> .	170
184 Mr. NEWTON Berlin No. 490	July 9	Transmits further memorandum on German financial and economic situation.	171
185 To Mr. NEWTON Berlin No. 759	July 13	Communicates <i>aide-mémoire</i> from German Government on financial situation and on impossibility of political concessions.	180

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
186 MR. NEWTON Berlin No. 495	July 10	German army. Transmits memorandum on military expenditure.	182
187 Memorandum from German Ambassador	July 13	German financial situation. Informs H.M.G. of measures taken to meet difficulties of Danat Bank.	184
188 MR. NEWTON Berlin Tel. No. 117	July 13	Reports on situation arising from closing of Danat Bank.	186
189 SIR R. LINDSAY Washington Tel. No. 422	July 13	Reports that Acting Secretary of State declares further United States financial aid to Germany impossible.	186
190 LORD TYRRELL Paris Tel. No. 163	July 14	Hoover moratorium. Reports rejection by French Government of British proposals with regard to guarantee fund and Spa percentages.	187
191 SIR R. LINDSAY Washington Tel. No. 424	July 14	Reports views of U.S. Government on desirability and scope of suggested conference.	187
192 SIR R. GRAHAM Rome Tel. No. 180	July 14	Reports account by Signor Grandi of conversations with Mr. Stimson in Rome.	188
193 Memorandum by MR. HENDERSON	July 20	Memorandum on discussions in Paris, July 15-19, with regard to conference in London and to German financial situation.	190
194 LORD TYRRELL Paris Tel. No. 164	July 15	Transmits message from Mr. Henderson to Mr. MacDonald concerning attitude of French Government to conference and to visit of His Majesty's Ministers to Berlin.	195
195 LORD TYRRELL Paris Tel. No. 165	July 15	Transmits further communication from Mr. Henderson.	196
196 LORD TYRRELL Paris Tel. No. 166	July 15	Transmits further communication from Mr. Henderson.	196
197 MR. NEWTON Berlin Unnumbered Tel.	July 15	Transmits communication from Mr. Henderson reporting reply of Dr. Brüning to message from Mr. MacDonald suggesting visit of His Majesty's Ministers to Berlin and conference of Ministers.	197
198 To H.M. Representatives at Berlin, Brussels, Paris, Rome, Tokyo, and Washington	July 16	Instructions to inform Governments of H.M.G.'s decision to summon conference of Ministers immediately.	197
199 LORD TYRRELL Paris Tel. No. 168	July 16	Proposed visit of Dr. Brüning to Paris. Transmits report from Mr. Henderson to Mr. MacDonald of conversations with French Ministers and Mr. Stimson relative to proposals for financial aid to Germany to be put before Dr. Brüning.	198
200 LORD TYRRELL Paris Tel. No. 170	July 16	Suggested visit of M. Laval to Chequers. Transmits message from Mr. Henderson to Mr. MacDonald.	199

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
201 SIR H. RUMBOLD Berlin Tel. No. 128	July 16	German financial situation. Transmits text of Chancellor's appreciation of situation.	199
202 SIR H. RUMBOLD Berlin Tel. No. 129	July 16	Proposed visit of His Majesty's Ministers to Berlin. Transmits message of regret to Mr. MacDonald from Dr. Brüning that visit has had to be cancelled; his hopes that it may still take place in the immediate future.	200
203 SIR H. RUMBOLD Berlin to LORD TYRRELL Paris Tel. No. 130	July 16	German internal situation. Reports to Mr. Henderson reaction of banking restrictions on party activities.	200
204 SIR H. RUMBOLD Berlin to LORD TYRRELL Paris Tel. No. 132	July 16	Proposed visit of Dr. Brüning to Paris. Reports to Mr. Henderson reasons why Dr. Brüning cannot leave Berlin till afternoon of July 17.	200
205 LORD TYRRELL Paris Tel. No. 171	July 16	German financial situation. Transmits report of meeting of Mr. Henderson and Mr. Stimson with M. Flandin at American Embassy.	201
206 LORD TYRRELL Paris Tel. No. 172	July 16	Proposed visit of Dr. Brüning to Paris. Transmits telephone message from His Majesty's Embassy at Berlin explaining why Dr. Brüning cannot leave Berlin till afternoon of July 17.	202
207 LORD TYRRELL Paris Tel. No. 174	July 16	European financial situation. Reports results of inquiries in Paris as to origins and motives of gold withdrawals from London.	203
208 TO LORD TYRRELL Paris Tel. No. 202	July 16	German financial situation. Transmits message from Mr. MacDonald to Mr. Henderson relative to difficulties in granting Germany guaranteed loan.	204
209 MR. NEWTON Berlin No. 508	July 14	German internal situation. Reports renewed activity of Nationalist parties.	205
210 SIR H. RUMBOLD Berlin Tel. No. 133	July 16	Reports interview with Dr. Brüning relative to possibility of German political gesture.	207
211 LORD TYRRELL Paris Tel. No. 175	July 17	Proposed conference of Ministers. Reports attitude in unofficial French circles to summoning of conference in London.	208
212 LORD TYRRELL Paris Tel. No. 176	July 17	Transmits message from Mr. Henderson to Mr. MacDonald relative to meeting held on July 17 with M. Laval and Mr. Stimson.	209
213 SIR R. LINDSAY Washington Tel. No. 435	July 17	Transmits text of statement of President Hoover on United States representation at conference.	209
214 SIR R. LINDSAY Washington Tel. No. 436	July 17	Reports that United States Ambassador at Brussels will represent United States of America at meeting of experts.	210

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
215 SIR H. RUMBOLD Berlin Tel. No. 139	July 17	Austro-German Customs Union. Reports discussion at Cabinet meeting relative to Austro-German Customs Union.	210
216 To LORD TYRRELL Paris Tel. No. 208	July 17	German financial situation. Transmits message to Mr. Henderson from Mr. Snowden on difficulties with regard to credits to Germany.	210
217 SIR H. RUMBOLD to LORD TYRRELL Tel. No. 141	July 18	Proposed conference of Ministers. Reports to Mr. Henderson attitude of German Government.	211
218 To LORD TYRRELL Paris Tel. No. 210	July 18	Message from Mr. MacDonald to Mr. Henderson calling attention to suggestion in No. 210.	211
219 Notes of Meeting	July 19	German financial situation. Notes of a conversation held at the Ministry for the Interior in Paris on July 19.	212
220 To H.M. Representatives at Berlin, Brussels, Paris, Rome, and Washington	July 21	Conference of Ministers. Announces opening of conference in London under presidency of Prime Minister.	217
221 Notes of Conversation	July 21	Note of a conversation between Mr. A. Henderson and Dr. Curtius.	218
222 To H.M. Representatives at Berlin, Brussels, Paris, Rome, and Washington	July 23	Draft declaration drawn up by Committee of Finance Ministers to relieve immediate situation.	222
223 MR. MACDONALD to President of Bank for International Settlements, Basle	July 23	Transmits declaration adopted at Conference.	222
224 To H.M. Representatives at Berlin, Brussels, Paris, Rome, and Washington	July 24	Reports acknowledgement by Bank of International Settlements of communication in No. 223.	224
225 SIR H. RUMBOLD Berlin No. 549	July 24	German economic situation. Reviews recent crisis and resultant political tendencies.	224
226 SIR H. RUMBOLD Berlin No. 552	July 24	Transmits memorandum by Financial Advisor respecting the financial crash of July 17-24.	227
227 SIR H. RUMBOLD Berlin No. 553	July 24	Transmits memorandum by Commercial Counsellor pointing out how banking restrictions interfere with business.	231
228 Record of Meeting	July 28	Visit of British Ministers to Berlin. Record of meeting between Mr. MacDonald, Mr. Henderson, Dr. Brüning, and Dr. Curtius in Berlin.	233
229 SIR H. RUMBOLD Berlin No. 564	July 28	Reports Dr. Brüning's speech on arrival of British Ministers, and subsequent speeches by Mr. MacDonald.	237
230 SIR H. RUMBOLD Berlin No. 569	July 29	Summarizes events connected with visit of British Ministers.	241

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
231 To M. BRIAND	July 30	Letter from Mr. Henderson giving a brief account of visit to Berlin.	244

CHAPTER IV

Report of the Basle Committee: German political and economic situation: decision of His Majesty's Government to suspend the Gold Standard Act of 1925: visit of MM. Laval and Briand to Berlin: visit of the Marquess of Reading to Paris: reconstruction of Dr. Brüning's Cabinet: German 'National Opposition' Meeting at Bad Harzburg (August 1-October 14, 1931)

232 SIR H. RUMBOLD Berlin No. 586	Aug. 4	German financial situation. Transmits record of a conversation with Dr. Ritter, of Ministry for Foreign Affairs, respecting short-term credits, foreign currency transactions and the financing of necessary imports.	246
233 SIR H. RUMBOLD Berlin No. 588	Aug. 5	German political situation. Discusses attitude of various parties towards the referendum concerning the dissolution of the Prussian Landtag.	248
234 SIR H. RUMBOLD Berlin No. 626	Aug. 14	Discusses effect of financial crisis on referendum tactics and reports on Herr Hitler's latest moves.	249
235 SIR H. RUMBOLD Berlin No. 641	Aug. 20	Records conversation with Herr Weismann, Prussian Secretary of State.	251
236 MR. OSBORNE Washington Tel. No. 504	Aug. 20	German financial situation. Reports American reception of the report of the Committee appointed by the Bank for International Settlements.	253
237 MR. OSBORNE Washington Tel. No. 505	Aug. 21	Reports attitude of President Hoover towards debt revision.	253
238 SIR W. LAYTON	Aug. 24	Notes of his conversations with Dr. Brüning on August 22-3, 1931.	254
239 SIR H. RUMBOLD Berlin No. 652	Aug. 24	Reports conversation with Herr von Bülow on the Committee's Report.	257
240 SIR H. RUMBOLD Berlin Tel. No. 175	Aug. 28	Reports conversation with German Minister for Foreign Affairs on the attitude of President Hoover towards reparations and war debts.	257
241 SIR H. RUMBOLD Berlin No. 701	Sept. 10	German political situation. Summarizes conversation with Count Dohna, who had heard from Herr Treviranus of a proposal to make Hindenburg President for life.	258
242 SIR H. RUMBOLD Berlin No. 715	Sept. 17	Reparations. Reports that German Government have no intention of coming forward with offer of 300 million dollars a year, as suggested by Mr. Mills, of United States Treasury.	259

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
243 SIR H. RUMBOLD Berlin No. 720	Sept. 18	Visit of French Ministers to Berlin. Discusses anxiety felt about utility of forthcoming visit of French Ministers.	260
244 MR. OSBORNE Washington Tel. No. 578	Sept. 20	Reparations and War Debts. Reports conversation with Mr. Stimson.	262
245 Extract from the Young Plan		Functions of the Special Advisory Committee.	263
246 To H.M. Representatives at Paris, Washington, Berlin, &c.	Sept. 20	Suspension of the Gold Standard. Gives substance of statement issued for publication.	263
247 To H.M. Representatives at Paris, Washington, Berlin, &c.	Sept. 20	Text of press notice referred to in No. 246.	264
248 MR. CAMPBELL Paris Tel. Unnumbered	Sept. 20	Transmits message for the Chancellor of the Exchequer from the French Minister of Finance offering co-operation.	266
249 To MR. CAMPBELL Paris Tel. No. 249	Sept. 20	Instructions to thank M. Flandin. Reports closing of the London Stock Exchange.	266
250 MR. OSBORNE Washington Tel. No. 579	Sept. 20	Discusses question whether the U.S. Government will close the New York Stock Exchange.	267
251 SIR H. RUMBOLD Berlin Tel. No. 181	Sept. 21	Reports German attitude towards action of H.M.G.	267
252 SIR H. RUMBOLD Berlin Tel. No. 183	Sept. 22	Further report on German attitude.	268
253 SIR H. RUMBOLD Berlin No. 736	Sept. 24	German political situation. Reports speech by Dr. Hugenberg, criticizing policy of Brüning Cabinet, particularly with regard to Franco-German negotiations.	268
254 SIR H. RUMBOLD Berlin Tel. No. 194	Sept. 29	Visit of French Ministers to Berlin. Reports constitution of Franco-German Economic Commission.	270
255 SIR H. RUMBOLD Berlin Tel. No. 195	Sept. 29	Further report on visit of French Ministers.	271
256 SIR H. RUMBOLD Berlin Tel. No. 196	Sept. 29	Economic situation in Europe. Reports anxiety in Basle regarding the smaller countries.	272
257 Note by SIR R. VANSITTART	Oct. 1	Visit of French Ministers to Berlin. Note of a conversation with the German Ambassador on the results of the visit.	272
258 SIR H. RUMBOLD Berlin Tel. No. 198	Oct. 1	Financial situation in Germany. Report on the situation.	273

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
259 TO MR. OSBORNE Washington Tel. No. 703	Oct. 5	War Debts and Reparations. Instructions for conversation with Mr. Stimson.	274
260 TO MR. OSBORNE Washington Tel. No. 704	Oct. 6	Further instructions with regard to views of H.M.G.	275
261 SIR H. RUMBOLD Berlin Tel. No. 200	Oct. 5	German financial situation. Reports deterioration in the position of the Reichsbank.	277
262 SIR H. RUMBOLD Berlin No. 772	Oct. 6	German political situation. Reports resignation of Dr. Cartius.	278
263 SIR H. RUMBOLD Berlin Tel. No. 203	Oct. 7	Reports probable appointment of Baron von Neurath as Foreign Minister.	280
264 SIR H. RUMBOLD Berlin Tel. No. 204	Oct. 7	Reports resignation of German Cabinet.	280
265 SIR H. RUMBOLD Berlin No. 787	Oct. 7	German political situation. Submits appreciation of situation in connexion with impending reassembly of the Reichstag.	280
266 Record of Conversation	Oct. 7	Anglo-French relations. Notes of a conversation between the Marquess of Reading, MM. Laval, Briand, and Flandin.	285
267 Record of Conversation	Oct. 8	Notes of further conversation between the Marquess of Reading and MM. Laval, Briand, and Flandin.	288
268 MR. OSBORNE Washington Tel. No. 625	Oct. 8	Hoover moratorium. Conference with members of Congress respecting extension of moratorium.	292
269 SIR H. RUMBOLD Berlin Tel. No. 208	Oct. 9	Political situation in Germany. Reports Dr. Brüning's difficulty in re-forming his Cabinet.	292
270 SIR H. RUMBOLD Berlin Tel. No. 210	Oct. 9	Reports formation of new government.	293
271 TO SIR H. RUMBOLD Berlin No. 1092	Oct. 9	Records information given to Count Bernstorff with regard to Anglo-French discussions.	293
272 SIR H. RUMBOLD Berlin Tel. No. 211	Oct. 10	Political situation in Germany. Reports changes in Dr. Brüning's second Cabinet.	294
273 SIR H. RUMBOLD Berlin Tel. No. 212	Oct. 10	Discusses question of the President's support of Dr. Brüning, and reception of Herr Hitler.	294
274 SIR H. RUMBOLD Berlin No. 801	Oct. 14	Reviews progress made by parties of the Right, and reports 'National Opposition' meeting at Harzburg, with speeches by Dr. Hugenburg and Herr Hitler.	295

CHAPTER V

Visit of M. Laval to Washington: correspondence and discussions with regard to the appointment of a special advisory committee under the Young Plan: proposal for an inter-governmental conference on reparation payments: National Socialist activities in Germany (October 17-December 20, 1931)

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
275 MR. PATTESON Geneva Tel. No. 139 L.N.	Oct. 17	Franco-American conversations. Repeats telegram from the Marquess of Reading to Sir R. Lindsay reporting hopes of successful outcome of meeting between President Hoover and M. Laval.	300
276 LORD TYRRELL Paris Unnumbered Tel.	Oct. 21	Submits appreciation of M. Laval's attitude on Franco-American co-operation.	301
277 SIR R. LINDSAY Washington Tel. No. 659	Oct. 23	Reports that ratification of moratorium is expected in due course, but attitude of Congress is unfavourable to solution of debts and security questions: success of M. Laval's visit doubtful.	303
278 TO SIR H. RUMBOLD Berlin No. 1138	Oct. 26	German financial situation. Transmits copy of a memorandum communicated by German Ambassador regarding Germany's foreign indebtedness.	303
279 SIR H. RUMBOLD Berlin No. 329	Oct. 23	German internal politics. Reports on National Socialist activities.	305
280 SIR R. LINDSAY Washington Tel. No. 661	Oct. 26	Franco-American conversations. Reports account given by Mr. Stimson of M. Laval's conversations in Washington.	306
281 SIR H. RUMBOLD Berlin Tel. No. 218	Oct. 27	Comments on negative results of the French Prime Minister's visit to Washington.	308
282 SIR H. RUMBOLD Berlin Tel. No. 219	Oct. 27	German financial situation. Reports French and American view that Germany would be expected to invoke special Advisory Committee under the Young Plan.	308
283 SIR H. RUMBOLD Berlin No. 351	Oct. 28	German-Italian relations. Reports on visit of Signor Grandi to Berlin and records conversation with Italian Ambassador discussing its result.	309
284 SIR H. RUMBOLD Berlin No. 367	Oct. 30	German financial situation. Records conversation with Dr. Brüning regarding German proposals as to repayments of short-term credits and unconditional annuities: German Government still awaiting information as to results of Franco-American conversations.	311
285 SIR H. RUMBOLD Berlin No. 368	Oct. 30	German financial and political situation. Reports a discussion with the Chancellor.	313

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
286 Communication from HERR VON BÜLOW to SIR H. RUMBOLD	Oct. 31	Communication with regard to the 'Still-stand' Agreement, and the proposal for summoning the Special Committee.	314
287 LORD TYRRELL Paris Tel. No. 12 Saving	Nov. 4	Reports inconclusive conversations between French Minister and the German Ambassador.	315
288 LORD TYRRELL Paris Tel. No. 13 Saving	Nov. 5	Reports M. Laval's account of his visit to Washington.	316
289 MR. NEWTON Berlin No. 892	Nov. 6	Reports German account of M. Laval's conversation with German Ambassador in Paris.	318
290 MR. NEWTON Berlin Tel. No. 266	Nov. 13	Reports that German Ambassador has been instructed to discuss with the French Government a draft memorandum proposing that Special Advisory Committee should be convened.	320
291 MR. CAMPBELL Paris Tel. No. 18 Saving	Nov. 13	Reports German formula for appointment of commission of inquiry.	320
292 To SIR R. LINDSAY Washington Tel. No. 790	Nov. 14	Inquires about United States attitude to short-term credits.	321
293 Memorandum by SIR J. SIMON	Nov. 17	Records conversation with M. Laval, who gave an account of his Washington visit, and discussed general plan for dealing with situation.	322
294 Memorandum by SIR J. SIMON	Nov. 17	Records conversation with Herr von Bülow regarding Germany's intended application for the setting up of the Special Advisory Committee.	325
295 LORD TYRRELL Paris Tel. No. 21 Saving	Nov. 17	Reports that German application to Bank of International Settlements is to be made shortly.	327
296 MR. NEWTON Berlin No. 935	Nov. 17	German political situation. Reports results of Hessian Landtag elections.	328
297 MR. NEWTON Berlin Tel. No. 227	Nov. 18	German financial situation. Reports on American and German attitudes with regard to American credits in Germany.	330
298 SIR R. LINDSAY Washington Tel. No. 712	Nov. 18	Reports on attitude of U.S. Government with regard to American credits in Germany.	331
299 Memorandum from German Ambassador	Nov. 20	Transmits memorandum in which German Government apply for the convocation of the Special Advisory Committee.	332
300 MR. NEWTON Berlin No. 940	Nov. 20	German political situation. Reports increasing growth of the National Socialist movement.	334

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
301 MR. NEWTON Berlin No. 948	Nov. 20	German financial situation. Transmits memorandum by the Financial and Commercial Counsellors regarding Germany's economic and financial situation in relation to her foreign indebtedness.	336
302 Notes of Conversation	Nov. 24	German political situation. Reports a conversation between Mr. Yencken and Captain Göring.	347
303 MR. NEWTON Berlin No. 967	Nov. 27	Reports discovery of alleged revolutionary document, apparently drafted by the legal adviser to the Hessian National Socialists.	350
304 SIR R. GRAHAM Rome Tel. No. 247	Nov. 30	Reports conversation with Prince Philip of Hesse on the situation in Germany and the rise of Herr Hitler.	353
305 SIR R. GRAHAM Rome Tel. No. 248	Dec. 4	Reports conversation with Signor Mussolini regarding Herr Hitler and his proposed visit to Rome.	355
306 TO LORD TYRRELL Paris No. 2908	Dec. 4	Reparations. Transmits memorandum communicated by French Ambassador expounding the French position in regard to reparations.	355
307 MR. NEWTON Berlin No. 984	Dec. 4	German political situation. Reports that Herr Hitler repudiates responsibility for authorship of document referred to in No. 303; discusses its effect on positions of the different parties.	359
308 SIR R. LINDSAY Washington Tel. No. 735	Dec. 6	Hoover plan. Discusses position with regard to Congress and legislation respecting the moratorium.	361
309 TO LORD TYRRELL Paris No. 2936	Dec. 9	Reparations. Transmits note from French Ambassador welcoming suggestion that Sir F. Leith-Ross should visit Paris for discussions.	362
310 SIR R. GRAHAM Rome Tel. No. 250	Dec. 9	Signor Grandi's American visit. Records conversation with Signor Grandi.	363
311 TO SIR H. RUMBOLD Berlin No. 1287	Dec. 11	Disarmament. Records conversation with German Ambassador regarding attitude of his Government towards postponement of Disarmament Conference.	365
312 SIR R. LINDSAY Washington Tel. No. 741	Dec. 11	Hoover plan. Reports Mr. Castle's statement regarding action by Congress.	366
313 TO LORD TYRRELL Paris Tel. No. 334	Dec. 16	Reparations. Instructions to discuss with French Government meeting-place, &c., of proposed conference of governments.	367
314 TO LORD TYRRELL Paris No. 2979	Dec. 16	Transmits statement of British point of view in reply to communication transmitted in No. 306.	367

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
315 TO LORD TYRRELL Paris No. 2984	Dec. 16	Reports discussion with French Ambassador of memorandum in No. 314 and of question of conference.	372
316 TO SIR H. RUMBOLD Berlin No. 1315	Dec. 18	Records conversation with German Ambassador regarding place of meeting of forthcoming conference.	373
317 SIR H. RUMBOLD Berlin No. 1041	Dec. 18	German political situation. Discusses general political position and prospects.	374
318 LORD TYRRELL Paris Tel. No. 247	Dec. 19	Reparations. Reports discussion with M. Berthelot on place and date of meeting of conference.	378
319 Notes of Conversation	Dec. 19	Reparations. Notes of a conversation between Sir F. Leith-Ross and M. Flandin.	379

CHAPTER VI

Further negotiations with the French and Italian Governments with regard to a Naval Agreement (March 1931-January 1932)

320 LORD TYRRELL Paris Tel. No. 41	Mar. 10	Franco-Italian Naval Agreement. Reports French Government's view that Drafting Committee should meet at once.	383
321 TO LORD TYRRELL Paris Tel. No. 39	Mar. 11	H.M.G. propose that Committee should meet in London, and suggests consultation of U.S. and Japanese Governments.	383
322 TO SIR R. GRAHAM Rome Tel. No. 54	Mar. 11	Instructions to inform Italian Government of above proposal.	383
323 SIR R. GRAHAM Rome Tel. No. 47	Mar. 14	Reports that Italian Government agree to meeting in London of Drafting Committee to elaborate final texts of naval agreement, but stipulate that no modifications of substance should be made.	384
324 SIR R. GRAHAM Rome Tel. No. 48	Mar. 14	Reports Signor Rosso's explanation of limitation of functions of Drafting Committee.	384
325 TO MR. SNOW Tokyo Tel. No. 43	Mar. 17	States that Japanese Ambassador has raised the question of the tonnage of capital ships and suggested postponement of the meeting of the Drafting Committee.	385
326 TO SIR R. GRAHAM Rome Tel. No. 64	Mar. 24	Reports difficulty raised by the French Government interpretation of the Bases of Agreement and transmits message from Mr. MacDonald to Signor Grandi.	385
327 TO SIR R. GRAHAM Rome Tel. No. 65	Mar. 24	Gives text of formula governing the laying down of replacement tonnage of over-age vessels.	387
328 TO SIR R. GRAHAM Rome Tel. No. 66	Mar. 24	Reports that Signor Rosso approves approach to Signor Grandi, but does not wish to be mentioned in the matter.	387

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
329 To SIR R. GRAHAM Rome from LORD TYRRELL, Paris Unnumbered Tel.	Mar. 24	Transmits message from Mr. Henderson for Signor Grandi regarding the differences of opinion in the interpretation of Bases of Agreement.	388
330 SIR R. GRAHAM Rome Unnumbered Tel.	Mar. 25	Reports Signor Grandi's reaction to the new French proposals.	389
331 LORD TYRRELL Paris (to SIR R. VANSITTART) Tel. No. 60	Mar. 26	Message from Mr. Henderson giving formula evolved after conversation with the French Government; requests that it may be sent to Signor Grandi with an expression of the hope of H.M.G. that the Italian Government may accept it.	390
332 SIR R. GRAHAM Rome Tel. No. 59	Mar. 27	Reports Italian feeling that the French attitude had destroyed the agreement.	391
333 SIR R. GRAHAM Rome Tels. Nos. 60 and 61	Mar. 28	Reports conversation with Signor Mussolini on the position.	392
334 SIR R. GRAHAM Rome Tels. Nos. 62 and 63	Mar. 28	Reports despondency of Signor Grandi.	392
335 To SIR R. GRAHAM Rome Tel. No. 78	Mar. 30	States objections of Admiralty to the French formula.	393
336 To SIR R. GRAHAM Rome Tel. No. 82	Mar. 30	Expresses sympathy with the Italian point of view, but points out the undesirability of a break-down of negotiations.	394
337 SIR R. GRAHAM Rome Tel. No. 66	Mar. 30	Reports on extremely difficult atmosphere in Rome and unlikelihood of French formula being accepted.	394
338 SIR R. GRAHAM Rome Tel. No. 67	Mar. 31	Reports that Italian Ministry of Marine is ready to break off negotiations.	395
339 SIR R. GRAHAM Rome Tel. No. 68	Apr. 1	Reports endeavours of the French Ambassador in Rome to explain seriousness of the position.	396
340 To SIR R. GRAHAM Rome Tel. No. 83	Apr. 1	Points out that the Italian presentation of the case is unfair to H.M.G.	397
341 To SIR R. GRAHAM Rome Tel. No. 86	Apr. 2	Reports message from M. Briand to Mr. Henderson presaging new proposals for a solution of the difficulties.	398
342 SIR R. GRAHAM Rome Tel. No. 81	Apr. 5	Transmits message from Signor Grandi to Mr. Henderson giving the Italian standpoint and expressing his desire to avoid a rupture of negotiations.	399
343 To SIR R. GRAHAM Rome Tel. No. 104	Apr. 9	States that Mr. Craigie has received a message from Signor Rosso accepting on behalf of his Government the formula put forward by H.M.G. provided it is subject to no further changes.	400

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
344 To LORD TYRRELL Paris No. 792	Apr. 10	Gives text of a message sent to M. Briand by M. Massigli, stating that the Bases of Agreement should be strictly adhered to by the Drafting Committee.	401
345 Memorandum from French Ambassador	Apr. 20	Transmits memorandum discussing divergent French and Italian interpretations of Bases of Agreement and suggesting a compromise proposal.	401
346 Memorandum communicated to French Ambassador	Apr. 25	Comments on No. 345: declines French proposal and suggests alternative compromise.	405
347 Memorandum communicated to Italian Ambassador	Apr. 25	Communicates H.M.G.'s reply to No. 345.	410
348 Memorandum by MR. CRAIGIE	Apr. 28	Reports a conversation with Senator Morrow regarding the French attitude.	411
349 Memorandum from Italian Ambassador	May 1	Transmits memorandum communicated to French Government in reply to their memorandum of April 20.	412
350 To SIR R. LINDSAY Washington Tels. Nos. 299 and 300	May 3	Gives explanations of French claim in regard to replacement of tonnage, and of the position of Italy and Great Britain.	416
351 To SIR R. LINDSAY Washington Tel. No. 301	May 3	Reports conversation between General Dawes and the First Lord of the Admiralty.	418
352 To SIR R. LINDSAY Washington Tel. No. 302	May 3	Gives reasons why a limitation of construction programme is not feasible.	419
353 LORD TYRRELL Paris Tel. No. 97	May 3	Reports conversation with M. Briand who was emphatic that he would not allow a rupture of the naval negotiations on the question of interpretation of the agreement.	420
354 MR. CAMPBELL Washington Tel. No. 256	May 7	Reports that Mr. Stimson will not give his considered views until he has seen Mr. Morrow, but that he had evidently not realized the full implications of the French proposals.	420
355 MR. CAMPBELL Washington Tels. Nos. 257 and 258	May 7	Reports conversation with Mr. Beale, who supported the American view that the four years' agreement proposed by the French would be better than nothing.	422
356 MR. CAMPBELL Washington Tel. No. 263	May 9	Reports further discussion with Mr. Stimson.	423
357 To MR. CAMPBELL Washington Tel. No. 316	May 12	Message from Sir R. Vansittart discussing possible American attitude in 1935.	425
358 To LORD TYRRELL Paris No. 1298	June 1	Reports conversation with M. Briand at Geneva. M. Briand had suggested to Signor Grandi that political talks might smooth the way for a naval agreement.	426

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359 Memorandum by MR. CRAIGIE	June 11	Memorandum on a conversation with Mr. Marriner and Mr. Atherton.	427
360 Memorandum by MR. CRAIGIE	July 30	Memorandum of a conversation with Mr. Stimson.	428
361 Letter to M. MASSIGLI	Nov. 11	Letter from Mr. Craigie transmitting a suggested compromise for bridging gap left by divergent interpretations of the Bases of Agreement of March 1, 1931.	429
362 M. MASSIGLI Paris	Jan. 6 1932	Letter to Mr. Craigie giving the French objections to the proposal put forward by Mr. Craigie on behalf of H.M.G. in No. 361.	432
APPENDIX I		Stenographic Notes of the London Conference, July 20-3.	435
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CHAPTER I

Correspondence with regard to proposals for an Austro-German Customs Union (March 21—May 18, 1931)

No. 1

Note from M. de Fleuriau to Mr. A. Henderson (Received March 20)

[C 1851/673/3]

L'Ambassadeur de France a l'honneur de faire savoir à son Excellence le Principal Secrétaire d'État de Sa Majesté britannique aux Affaires étrangères que, selon des renseignements parvenus au Gouvernement français, l'Autriche et l'Allemagne seraient sur le point de déclarer le principe de leur union douanière. Cette décision aurait été prise sur la suggestion de M. Curtius, au cours de la récente visite de celui-ci à Vienne.

Un comité, comprenant, du côté allemand, MM. Curtius, Binder, Lerchenfeld, et, du côté autrichien, MM. Ender, Schober et Franck, aurait examiné les propositions de M. Curtius et aurait signé un protocole à ce sujet.

M. Schober les aurait exposées, le 14 mars, au Conseil des Ministres, qui, malgré les surenchères du Ministre de l'Intérieur, les auraient approuvées dans la forme où elles avaient été établies pendant la visite de M. Curtius. Ce projet tendrait à la conclusion entre l'Autriche et l'Allemagne d'accords régionaux économiques. Ceux-ci devraient paraître en harmonie avec les principes posés à Genève et avec ceux de l'Union européenne. Ils iraient jusqu'à la déclaration d'une sorte d'union douanière.

Le Gouvernement autrichien les déposerait devant la 'Grande Commission' du Parlement dès le 21 mars prochain, et il ferait le même jour une communication à la presse. Une déclaration identique serait publiée simultanément à Vienne et à Berlin: elle ne ferait que poser un principe, les modalités devant venir ensuite.

Les conséquences d'une telle initiative sont trop sérieuses pour qu'une action ne soit pas exercée en temps utile.

Le Gouvernement français estime, en effet, que le mouvement d'opinion que provoquerait dans les deux pays intéressés la proclamation même voilée du principe d'une union douanière, risquerait de rendre vaine une intervention ultérieure; ce principe une fois posé, les modalités s'ensuivraient tout naturellement et l'Allemagne et l'Autriche se seraient engagées dans la voie qui mène à l' 'Anschluss'.

En conséquence, les quatre Puissances signataires avec l'Autriche du

Protocole No. 1, du 4 octobre 1922, relatif au plan du relèvement financier de l'Autriche, devaient effectuer une démarche à Vienne.

Par cet acte, le Gouvernement autrichien 's'engage', dans les termes de l'article 88 du Traité de Saint-Germain, 'à ne pas aliéner son indépendance; il s'abstiendra de toute négociation et de tout engagement économique ou financier qui serait de nature à compromettre directement ou indirectement son indépendance'.

D'autre part, il est indiqué que l'Autriche 'ne pourra porter atteinte à son indépendance économique par l'octroi à un État quelconque d'un régime spécial ou d'avantages exclusifs, de nature à menacer cette indépendance'.

Un accord avec l'Allemagne qui, même d'une façon indirecte, tendrait à instituer une union douanière entre l'Autriche et l'Allemagne, serait donc en contradiction formelle avec les engagements pris par l'Autriche.

M. Briand a prié M. de Fleuriau d'attirer l'attention de Mr. Henderson sur cette question et de lui demander de bien vouloir adresser au Ministre de Sa Majesté britannique en Autriche des instructions pour qu'il rappelle au Gouvernement de Vienne les engagements de 1922 et l'intérêt qui s'attache pour le maintien de la tranquillité en Europe à ce qu'ils soient respectés, cela d'accord avec ses collègues.

M. Briand estime que les représentants des Puissances intéressées devraient s'abstenir d'effectuer une démarche commune. La démarche en question pourrait être motivée par les informations de presse, parues dans la 'Neue Freie Presse' du 17 mars. Il y aurait intérêt à ce qu'elle eût lieu dès le 21 mars, en vue de prévenir, si possible, la communication du Gouvernement autrichien à la presse, annoncée pour ce jour-là.

M. de Fleuriau saisit, &c.

AMBASSADE DE FRANCE, LONDRES,

le 20 mars 1931.

No. 2

Note by Sir R. Vansittart

[C 1850/673/3]

FOREIGN OFFICE, *March 21, 1931*

The Austrian Minister came to see me this morning and read to me the annexed documents. He said he would call again on Tuesday¹ at 5 p.m. with fuller particulars of the safeguards proposed.

I said that in the absence of knowledge of these very important 'particulars,' and also in the absence of the Secretary of State, I could only adopt an attitude of reserve. I must at once, however, draw his attention to article 88 of the Treaty of Saint-Germain, and also to the Geneva Protocol of the 3rd October, 1922, which I read out to him. I said that, whatever the details of

¹ March 24.

the arrangement contemplated, we should expect time to consider them, in order to satisfy ourselves that they were not in conflict with the very definite undertakings of the Austrian Government. I therefore trusted I might assume that we should on Tuesday be informed of the measures *contemplated*, and that there was no thought of confronting us with any *fait accompli*. The Austrian Minister, seeming rather embarrassed, said that he supposed so, but he did not know. He knew nothing in fact beyond the documents he had brought. I said in that case he had better telegraph to his Government and tell them of my provisional and personal comments upon the imperfect information in my possession. I asked him to let me have the reply by Monday, so that I could study it before we met on Tuesday. Meanwhile, I must repeat that my attitude was one of reserve as to the still lacking substance, and one of warning in regard to any *fait accompli*. We must have time to consider; that was essential, and any other method would, I thought, have a deplorable effect. The Austrian Minister said he anticipated objection from the French to anything like a customs union. I said I thought he was right there, and I could not answer for it that there would not be objection elsewhere also, if that in effect was what was contemplated.

R. V.

ENCLOSURE IN NO. 2

Documents communicated by the Austrian Minister

(1)

All the Governments of the new Austria have repeatedly voiced the conviction that their country can only exist and develop as part of a large economic unit. Independent tentative action taken by Austrian Governments in the past has proved unsuccessful, being frustrated by political and economic obstacles.

The Austrian Government has participated actively in all the negotiations for the bringing into effect of the decisions of the World Economic Conference, and is at the present moment taking part, as His Majesty's Government is aware, in negotiations which are being carried on with the British Government on the one hand, and with the Governments of the East European agrarian States on the other, with a view to providing reciprocal facilities for trade and commerce. The Austrian Government confidently hopes that these negotiations will lead to positive results.

In exchanges of views which have taken place recently between the Austrian and the German Governments, both Governments were of opinion that the methods hitherto adopted do not suffice to enable successful progress, so desirable in the interest of peace and reconciliation, to be made along the path laid down by the World Economic Conference. During the September session of the League of Nations, the Austrian Vice-Chancellor, Dr. Schober, put forward the suggestion that the reorganisation of European economic

conditions should begin with the conclusion of regional agreements. In pursuance of this suggestion and of earlier conversations held at Geneva, the Foreign Ministers of Austria and of Germany agreed on the occasion of Dr. Curtius's recent visit to Vienna to request their Governments to consider whether some practical beginning in this direction should not now be made. Both Governments gave affirmative replies and decided that negotiations should be entered upon immediately for an agreement designed to co-ordinate the customs tariffs and economic conditions of the two countries on the basis and within the framework of certain guiding principles. Germany and Austria declare themselves willing to enter into negotiations for a similar agreement with any European State which desires to do so. From the economic point of view importance must be attached in this respect to the countries involved remaining as far as the chief agricultural products are concerned separate importing units. The Austrian and German Governments must of course confine themselves to stating their readiness to enter into negotiations with other countries; the attitude of the latter towards this proposal can only be determined by themselves. The basis of the negotiations must be the maintenance of the full sovereignty and independence of the participating States. Full regard has been paid to this condition in the directions intended to serve as a basis for the negotiations between Austria and Germany, and which the Austrian Minister will communicate to the Foreign Office on Tuesday next. The two Governments would be happy to conduct negotiations of this kind with other countries as well. They firmly believe that the co-ordination of European economic conditions would ensure peace and economic prosperity for the States of Europe.

The German Ambassador is aware that this *démarche* is being made.

(2)

Most of the customs duties imposed by European States are directed against the competition of other European States. If the countries of Europe were to remove all barriers out of the way of their trade with one another, most duties would become superfluous and Free Trade on a vast scale would be realised. Thus, if the leading States of Europe were prepared to join a customs union, Europe would no longer need the greater part of the duties now in force, and Free Trade would also be established with Free Trade countries remaining outside the customs unions.

The contents of the directions for the negotiations with Germany make it clear that the matter has nothing to do with the question of 'Anschluss'. Care has been taken to avoid everything which could be interpreted as relating to 'Anschluss', and this care will also be observed in the further negotiations.

It is possible, however, that a customs agreement of the kind proposed may be declared by Governments who have political objections to it to imperil the independence of Austria. This might be regarded as an infringement of the Geneva Protocol, and the stipulations of article 88 of the Treaty of Saint-

Germain might be invoked, according to which the approval of the Council of the League of Nations would have to be obtained.¹

It cannot be denied that the independence of a small country which enters into a customs union with a large country may be impaired. Whether this happens or not depends upon the provisions of the treaty. In the guiding directions laid down for the negotiations with Germany every precaution is taken to preserve the independence of Austria. There are to be no common bodies; the German Parliament and the Austrian Parliament will decide upon their customs tariffs. Each of the two States may conduct commercial treaty negotiations independently. Differences of opinion will be submitted to an arbitral tribunal, as is stipulated in other commercial treaties. The agreement will be concluded for three years only, and provision will be made for denunciation even within that period.

It is important to note that both countries are prepared to conclude an agreement on the same bases with any other European State.

The purpose of the present *démarche* is to keep other Governments informed even at the present early stage of the intentions of the Austrian and German Governments. The matter can then be further discussed by the competent Ministers in the Committee on European Co-operation.

¹ According to article 88 of the Treaty of Saint-Germain, the independence of Austria was declared inalienable except with the consent of the Council of the League of Nations. Austria undertook to abstain, in the absence of this consent, 'from any act which might directly or indirectly or by any means whatever compromise her independence'. In the first of the three protocols signed at Geneva in 1922, and dealing with the economic rehabilitation of Austria, the Austrian Government reaffirmed the undertaking given in article 88 of the Treaty of Saint-Germain, and agreed 'to abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise' Austrian independence, and also to refrain from 'granting to any State a special régime or exclusive advantages calculated to threaten' Austrian economic independence.

No. 3

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 286 [C 1879/673/3]

Sir,

FOREIGN OFFICE, *March 25, 1931*

With reference to my telegram No. 19¹ of the 21st March last, I have to inform your Excellency that the German Ambassador called on the Permanent Under-Secretary of State for Foreign Affairs on the 23rd March and left a protocol regarding the proposed Austro-German Customs Union, a translation of which is enclosed.²

2. Freiherr von Neurath referred to the visit of the Austrian Minister on the 21st March, and Sir Robert Vansittart explained that he had since received a letter from Herr Franckenstein giving the assurance that there was no intention of confronting His Majesty's Government with a *fait accompli*. The German Ambassador confirmed this; there would be ample time and

¹ Not printed. This telegram summarized the interview reported in No. 3.

² Enclosure No. 1.

occasion, he said, to formulate any objections or criticisms that might be considered necessary after the texts had been fully examined. Sir Robert said that this at least was all to the good, since undue or unfair haste would have undoubtedly created a deplorable impression. Freiherr von Neurath agreed, and said that this project had been taking shape for a year. He was told that, in these circumstances, Sir Robert felt more strongly than ever that the interested parties should have been consulted sooner; as it was, the whole matter had been conducted in the way best calculated to arouse suspicion and obstruction. In many quarters it had already been interpreted as a prelude to the 'Anschluss', a subject which it was well known could not be touched. The Ambassador said that he hoped the 'Anschluss' would never be brought up; 90 per cent. of the German political world was against it, and the only result would be that more Socialists and Catholics would be elected to the Reichstag, and these were already as strongly represented as the average German desired. His Majesty's Government could rest assured that there was no thought of the 'Anschluss' in the present proposal. Sir Robert said that he was glad to take note of this.

3. Freiherr von Neurath also said that he felt confident that it would be found that the enclosed protocol infringed none of the treaty undertakings of either party. Sir Robert said that he hoped, indeed, that this would prove to be the case, but on that the legal advisers of the Foreign Office must also have time and opportunity to satisfy themselves, while the economic side of the matter would call for careful study both at the Foreign Office and at the Board of Trade. Meanwhile, as had been pointed out to the Austrian Minister, His Majesty's Government must maintain an attitude of complete reserve. The Ambassador replied that he entirely appreciated this.

4. The interview was entirely friendly, but Freiherr von Neurath, like Herr Franckenstein, appeared somewhat ill at ease, the more so when he was told what had passed between M. Briand and Herr von Hoesch. He asked whether the Italians had also taken the proposal so much amiss, and Sir Robert said that he believed this to be the case. The Ambassador expressed surprise, and Sir Robert added that he must expect, on present information, opposition and protest in Great Britain as well. The Ambassador said he was sure that any apprehensions would prove to be unfounded or exaggerated.

5. The French Ambassador called shortly afterwards and was told what had passed at the interviews with Herr Franckenstein and Freiherr von Neurath. M. de Fleuriau had previously communicated to the Secretary of State a memorandum, a copy of which is enclosed¹, in which he drew attention to the fact that the Franco-German Commercial Treaty of 1927 contains a clause providing for most-favoured-nation treatment, and that Germany cannot, therefore, confer advantages on Austrian goods without conferring them on similar French goods. Sir Robert Vansittart therefore took the opportunity of explaining to the French Ambassador that the Anglo-German treaty of 1924 contains (article 4 (2)) a special clause by which the provisions of the treaty in regard to the grant of most-favoured-nation treatment were not

¹ Enclosure No. 2.

extended to 'favours granted by one of the two contracting Powers to a third State in view of a customs union which has already been or may hereafter be concluded'. The Anglo-Austrian treaty of 1924 contains no such clause, but the Board of Trade had intimated that they would certainly not raise the point, since they considered it a well-known principle of international theory that most-favoured-nation treatment does not apply in cases where customs unions have been established. Moreover, had Austria requested that an article similar to article 4 (2) of the Anglo-German Treaty be inserted in the Anglo-Austrian Treaty, the Board of Trade would have undoubtedly raised no difficulties.

6. A similar despatch has been addressed to His Majesty's representative at Vienna, and copies have been sent to His Majesty's Ambassadors at Paris and Rome and to His Majesty's Minister in Prague.

I am, &c.

ARTHUR HENDERSON

ENCLOSURES IN No. 3

(1)

(Translation.)

In the course of the conversations which took place in Vienna at the beginning of March 1931 the German Government and the Austrian Government agreed to enter forthwith into negotiations for a treaty to assimilate the tariff and economic policies of their respective countries on the basis and within the limits of the following principles:—

I

1. The treaty is destined to mark the beginning of a new order of European economic conditions on lines of regional agreements, the independence of the two countries being fully maintained and due respect being paid to the obligations undertaken by them towards third States.

2. More especially, both parties will in the treaty declare their willingness to enter into negotiations for a similar agreement with any other country expressing such a desire.

II

1. Germany and Austria will agree on a tariff law and a customs tariff which shall be put into force in both customs territories concurrently with the treaty and for the period of its validity.

2. During the validity of the treaty amendments to the tariff law and the customs tariff may only be effected in virtue of an agreement of both parties.

III

1. As long as the treaty remains in force the exchange of goods between the two countries shall not be subject to any import or export duties.

2. The two Governments shall agree in the treaty whether provisional tariffs will be necessary, and, if so, for which specified categories of goods and for which period.

IV

The two Governments shall agree to stipulations in the treaty concerning a provisional arrangement regarding interchange in respect of the turnover tax and as to such goods for which, at the present time, monopolies or excise duties are in existence in either of the two countries.

V

1. The Customs Administration of each of the two countries shall be independent of that of the other and shall remain under the exclusive control of the Government of its respective country. Furthermore, each country shall bear the expenses of its own Customs Administration.

2. Both Governments, whilst fully respecting the above principle, will assure by special measures of a technical character the uniform execution of the tariff law, the customs tariff and the other tariff regulations.

VI

1. In the German customs territory the customs duties shall be levied by the German customs authorities, and in the Austrian customs territory by the Austrian customs authorities.

2. After deducting the special expenses arising out of the application of the treaty the amount of the duties received shall be apportioned between the two countries according to a quota.

3. In the agreements to be made regarding this point care will be taken not to prejudice the liens on customs revenues existing in either country.

VII

1. No import, export or transit prohibitions shall exist between Germany and Austria. Such exceptions as may prove to be necessary for reasons of public security, public health or similar grounds shall be specified in the treaty as precisely as possible.

2. In place of the Convention on Animal Disease concluded between Germany and Austria on the 12th July, 1924, the two Governments will conclude as soon as possible, not later than one year after the entry into operation of the treaty, and put into force a fresh agreement regulating the traffic of animals and animal products between Germany and Austria under the same conditions in accordance with the same regulations as govern internal traffic in Germany and Austria.

VIII

The rights appertaining to individuals and juridical persons of the one party in the territory of the other in respect of settlement, industry, taxation, &c., shall be regulated in the treaty on the basis of the relevant provisions of the Austro-German Commercial Treaty now in force. On the same basis regulations shall also be agreed upon concerning railway and shipping traffic between the two parties.

IX

1. Each of the two Governments, even after the entry into force of the treaty, shall retain in principle the right to conclude commercial treaties with third States on their own behalf.

2. In such negotiations with third States, the German and the Austrian Governments will take heed that the interests of the other contracting party are not infringed by the text and object of the treaty to be concluded.

3. So far as it seems opportune and possible with a view to effecting a simple, speedy and uniform settlement of the commercial relations with third States, the German Government and the Austrian Government will conduct joint negotiations for the conclusion of commercial treaties with third States. Even in this case, however, Germany and Austria will each sign and ratify a separate commercial treaty on their own behalf, and will only arrange together for a simultaneous exchange of the ratifications with the third State in question.

X

The two Governments will take the necessary steps in due time to bring into accord with one another and with the contents and object of the treaty, the existing commercial treaties concluded by Germany and Austria with third States so far as they contain obligations respecting customs tariff rates or so far as they might impair the execution of the existing import and export prohibitions and other regulations on the exchange of goods.

XI

1. To ensure a smooth working of the treaty an Arbitral Committee shall be provided for therein composed on the lines of complete parity of members of the two parties. This committee will have to deal with the following matters:—

(a) Settlement by arbitration of differences of opinion arising between both parties as to the interpretation and application of the treaty.

(b) To bring about a compromise in such cases where the treaty provides for a special agreement between both parties, or in which, according to the text of the treaty, the realisation of the intentions of the one party depends upon the consent of the other, provided that in such cases agreement cannot be reached between the two parties.

2. A decision of the Arbitral Committee in cases (a) and (b) referred to above shall have binding effect on both parties, a majority of votes being sufficient. The president of the committee shall have a casting vote. Complete parity in choosing the president from time to time shall be provided for in the treaty.

3. Should either of the two Governments be of the opinion that the decision of the Arbitral Committee in any of the cases mentioned under 1 (b) infringes its vital economic interests, it shall be entitled to terminate the treaty at any time on giving six months' notice. Such notice of termination may also be given during the first period of three years mentioned under XII, 2.

1. The treaty to be concluded shall be ratified and shall enter into operation at the end of a period to be fixed in the treaty which extends from the date of the exchange of ratifications.

2. The treaty may be denounced at any time upon one year's notice, but not before the end of the third year after its entry into force except in the case mentioned under XI, 3.

3. Notice may only be given in virtue of a law to be enacted by the country denouncing the treaty.

(2) *M. de Fleuriau to Mr. A. Henderson*

L'Ambassadeur d'Allemagne à Paris est venu entretenir verbalement M. Briand de l'accord douanier austro-allemand, sans lui remettre aucune note.

M. Briand a attiré l'attention de M. de Hoesch sur la violation par l'Autriche du Protocole No. 1, du 4 octobre 1922.

L'accord en question constituait, en effet, une véritable union douanière, laissant prévoir l' 'Anschluss'. Il aurait pour conséquence d'aliéner sur le terrain économique l'indépendance de l'Autriche, car il comportait entre autres le partage du produit des recettes douanières au prorata de la population des deux pays, la négociation des traités de commerce en commun et, suivant un accord, la suppression des taxes à l'importation ou à l'exportation entre les deux pays.

L'accord austro-allemand ne pouvait sincèrement être présenté comme une simple application des principes dont s'inspirent les négociations, en vue de l'établissement de l'union européenne.

D'autre part, M. Briand a indiqué qu'au moment où l'Allemagne sollicitait le concours financier de la France, il était tout à fait inopportun d'inquiéter l'opinion publique par la réalisation économique de l' 'Anschluss', en masquant cette action sous les dehors d'une mise à exécution des projets d'union européenne. Le principe d'ententes régionales avait été mis en avant pour réaliser dans le cadre de l'unité géographique européenne une de ces ententes prévues et recommandées formellement par le Pacte et non pas pour créer des groupements à l'intérieur de l'Europe, susceptibles de s'opposer les uns aux autres. M. Briand a ajouté que le mémorandum français du 1^{er} mai 1930¹ avait indiqué comme contraire à la politique d'union européenne qu'il avait préconisée 'la formation d'unions douanières tendant à abolir les douanes intérieures, pour élever aux limites de la communauté une barrière plus rigoureuse, c'est-à-dire pour constituer, en fait, un instrument de lutte contre les États situés hors de ces unions'.

Le texte même de l'accord entre l'Autriche et l'Allemagne n'ayant pas été communiqué à M. Briand, il n'a pas voulu entrer dans une discussion en détail de ses clauses. Il a, néanmoins, insisté auprès de l'Ambassadeur de l'Allemagne sur les répercussions d'ordre politique que ne manquerait pas d'avoir [*sic*] dans les pays intéressés et particulièrement dans les pays avec

¹ i.e. M. Briand's memorandum on European federal union.

lesquels l'Autriche avait signé le Protocole de 1922, en vue d'obtenir leur concours à son relèvement financier et économique. Par ce Protocole, l'Autriche s'était, en effet, engagée à conserver sa pleine indépendance politique et économique.

Le caractère secret gardé à ces inquiétantes négociations, visant nettement à mettre les pays signataires du Protocole de 1922 en face du fait accompli, offrait un témoignage évident de leur caractère tendancieux.

M. von Hoesch a semblé décontenancé de l'effet produit par sa communication et a déclaré qu'il transmettrait à son Gouvernement les observations de M. le Ministre des Affaires étrangères en lui signalant en même temps l'émotion suscitée à Paris par les premières informations parues à ce sujet.

D'autre part, M. Briand a chargé l'Ambassadeur de France à Berlin de présenter des observations de même nature à M. Curtius, en attirant également son attention sur les engagements pris par le Président du Reich dans l'Accord commercial franco-allemand du 17 août 1927. Cet accord reconnaît à la France le traitement de la nation la plus favorisée; aucune dérogation n'y ayant été apportée en faveur d'une union douanière éventuelle de l'Allemagne, celle-ci ne saurait accorder aucun traitement préférentiel à l'Autriche qui ne serait automatiquement étendu à la France.

En vertu de l'Accord commercial franco-autrichien de 1928, la situation de l'Autriche est la même à l'égard de la France.

M. de Fleuriau saisit, &c.

AMBASSADE DE FRANCE, LONDRES,

le 23 mars 1931.

No. 4

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received March 24)

No. 17 Telegraphic [C 1884/673/3]

BERLIN, March 23, 1931

Minister for Foreign Affairs sent for me to-day in order to communicate to me copy of protocol providing for initiation of negotiations for conclusion of a Customs Union with Austria. I understand German Ambassador will by now have communicated this document to you. Minister for Foreign Affairs was most anxious that you should be in possession of protocol and enabled to have a preliminary report on it before you left for Paris and he had urged upon Austrian Vice-Chancellor last Thursday expediency of communicating protocol at once in London, Paris and Rome especially the former capital. He admitted that there had been leakage at Vienna on March 17 with regard to its contents.

He referred to interview between Sir R. Vansittart and Austrian Minister as also to *démarche* made at Vienna by French, Italian, and Czechoslovak representatives (see Sir E. Phipps' telegram No. 9).¹

He said Governments would of course examine whether in fact proposed Customs Union violated Geneva protocol and he was confident that they

¹ Not printed. This telegram reported the *démarche* mentioned above.

would find that it did not do so. He hoped that negotiations with Austria would consequently be conducted in a quiet atmosphere.

I said I understand that proposed Customs Union would practically result in free trade between Germany and Austria and any other country joining Austro-German arrangement with a tariff wall against all other countries. I drew his attention to stipulation that 'Customs revenue collected will be disposed of between the two countries in accordance with a schedule of distribution to be agreed upon'. This stipulation seemed to emphasize extremely close character of projected Customs Union between the two countries.

Finally I asked him what became of most-favoured-nation clause in Treaties which Germany and Austria had with other countries. As a concrete case, if a machine of similar make and value were exported to Austria from England and Germany respectively, British machine would pay customs duty and German would not. He replied that this and similar questions would have to be examined.

He added that as principle of most-favoured-nation treatment does not hold good according to International Law in the case of Customs Unions—this principle was moreover laid down in all German Commercial Treaties—present agreement could be made without previously consulting other Powers.

Finally he expressed view that Customs Unions such as that projected between Germany and Austria were best means of furthering free trade principles. The greater the number of States participating in such a Customs Union the larger would be free trade area between those States.

Addressed to Foreign Office. Repeated to Vienna.

No. 5

*Lord Tyrrell (Paris) to Sir H. Rumbold (Berlin) and to Sir E. Phipps
(Vienna)*

No. 1¹ Telegraphic: by telephone [C 1913/673/3]

PARIS, March 25, 1931

Following from Secretary of State:—

German (Austrian) Government should be under no misapprehension as to serious misgivings which have been aroused by their action in many countries and in France in particular.

Though there may be two opinions as to the exact conformity of proposed treaty with existing obligations of Austria and, indeed, of Germany, you should make it clear to German (Austrian) Chancellor that state of feeling both in Great Britain and here causes me great concern, and I feel that if nothing is done to calm existing apprehensions the task of those who are anxious that Disarmament Conference should meet under the most favourable

¹ This telegram was sent as No. 1 to Berlin and Vienna and was repeated as No. 55 to the Foreign Office where it was received on March 25. Mr. Henderson went to Paris on March 23 to attend a meeting of the Organization Committee of the Commission of Enquiry into European Union.

conditions will be seriously compromised by any apparent disregard of any treaty obligations by unilateral action.

In this connexion the position of M. Briand has become one of great difficulty, and the influence which he has only at great trouble been able to exercise for many years past in controlling more extreme tendencies among his own countrymen will be unquestionably affected. I should regard this as contrary to the interests and the consolidation of peace which I, in concert with the German (Austrian) Government, am anxious to serve.

You should submit these considerations to the German (Austrian) Chancellor with all the emphasis which the circumstances, in my opinion, demand. I appeal to them that before they proceed further opportunity should be given to Council of League of Nations, under whose auspices the protocol of 1922 was negotiated, to assure itself that treaty is not contrary to the obligations undertaken by Austria by that instrument.

Similar instructions have been sent to His Majesty's Minister at Vienna (His Majesty's Ambassador, Berlin).

No. 6

Sir E. Phipps (Vienna) to Lord Tyrrell (Paris)

No. 1¹ Telegraphic [C 1951/673/3]

VIENNA, March 25, 1931

Your telegram No. 1.²

Following for Secretary of State:—

I have handed to Dr. Schober³ a copy of your telephone message and urged him to comply at once with your request. I laid particular stress on savage attacks by French nationalists on M. Briand.

Dr. Schober promises me a definite reply tonight after he has consulted the Chancellor. He declares that original wish of Austrian Government was to bring the matter before Pan-European Commission at the end of April with a view to reference to League Council if necessary and that was the decision reached after Dr. Curtius left Vienna; but their hand was then forced by the Germans who insisted on publication before present Paris meeting. He pointed out that no Austrian Government could have resisted the German offer.

¹ This telegram was sent as No. 1 to Paris and repeated as No. 7 to Berlin and No. 12 to the Foreign Office where it was received on March 25.

² No. 5.

³ Vice-Chancellor and Minister for Foreign Affairs.

No. 7

Sir H. Rumbold (Berlin) to Lord Tyrrell (Paris)

No. 1¹ Telegraphic [C 1955/673/3]

BERLIN, March 25, 1931

Following for Secretary of State:—

I have carried out the instructions in your telegram No. 1.²

After making communication to Chancellor prescribed by you, I read to

¹ This telegram was sent as No. 1 to Paris and Vienna and repeated as No. 20 to the Foreign Office where it was received on March 26.

² No. 5.

him a summary of British press on proposed German-Austrian Customs Union, and, in particular, remarks of 'Daily Herald'. I also alluded to the article¹ written by Theodor Wolff in yesterday's 'Tageblatt,' translation of which went to you by post to-night, as showing that even in Germany there was misgiving as to the moment chosen for the conclusion of the agreement to begin negotiations with Austria for a customs union.

It was surely not in Germany's interest that M. Briand's position should be seriously shaken. I emphasised necessity for avoiding any action which might trouble the international atmosphere before Disarmament Conference met, and reminded him of the excellent effect produced by agreement come to between England, France and Italy in connexion with the naval pact.

Chancellor, who was evidently prepared for my *démarche*, then read me a short note which he had prepared and of which the following is a translation:—

'The Austro-German agreement is entirely within the framework of Geneva Protocol of 4th October, 1922.

'Therefore, in our opinion, there is no reason why Council of League of Nations should take up the matter. German and Austrian Governments have nothing to fear if other Governments proceed to an examination of juridical aspect of the question. German Government could not admit an examination of agreement by Council of the League from a political standpoint, as agreement is of a purely economic character. The negotiations must naturally take their course, and having regard to the numerous technical details which have to be settled, cannot be concluded before two or three months.'

¹ On March 24 Dr. Theodor Wolff, editor of the *Berliner Tageblatt*, had written an article in the paper criticizing the announcement of the proposed Customs Union without previous consultation of the Reichstag and suggesting that 'German foreign policy, under the impetus of the call for activity', was 'pursuing too many aims at one and the same time, for instance, in Austria, in France and in Russia, and thus running the risk of blocking one road while pursuing another'.

No. 8

Sir H. Rumbold (Berlin) to Lord Tyrrell (Paris)

No. 2¹ Telegraphic [C 1956/673/3]

BERLIN, March 25, 1931

My immediately preceding telegram.²

Chancellor added that German Government had not had any political considerations at the back of their minds when negotiating agreement with Austria. Leakage regarding terms of agreement had obliged the two Governments to hasten its conclusion but they would anyhow have communicated its terms to other Powers.

Chancellor then said that Theodor Wolff did not represent German public opinion as a whole in this matter. Germany had few rights and if she

¹ This telegram was sent as No. 2 to Paris and repeated to Vienna and as No. 21 to the Foreign Office where it was received on March 26.

² No. 7.

were going to be checked at every turn the position of his Government would become untenable. Her right to enter into a Customs Union with Austria could not be disputed. He did not think that M. Briand's position would in fact be really prejudicially affected. If the French were to make a serious *démarche* at Berlin in connexion with projected Austro-German Customs Union there would be an explosion in this country. The French surely were deeply interested in the stability of the German Government. He did not consider that French Government had hitherto done anything to help his Government and he made the interesting admission that attempts which he had made to come to an understanding with French Government had so far led to nothing.¹

¹ On March 25 Dr. Brüning dealt in a public speech with the proposals for a Customs Union. He concluded his speech with the words: 'Germany and Austria are in any case determined to pursue with calm deliberation to the end the course which they have decided to be the right one in their own interests and in the interests of all.'

No. 9

Sir E. Phipps (Vienna) to Lord Tyrrell (Paris)

No. 2¹ Telegraphic [C 1952/673/3]

VIENNA, March 25, 1931

Your telegram No. 1.²

Following for Secretary of State:—

Following is reply of Austrian Government:—

'Austrian Government are of the opinion that agreement between Austrian and German Governments is quite in conformity with Geneva Protocol of 1922.

'Austrian Government, however, do not object to legal aspect of the agreement being examined by the Governments which signed Geneva Protocol. To examine agreement from political standpoint should be out of the question, considering its economic character.

'Austrian Government have no intention of making a *fait accompli*.'

¹ This telegram was sent as No. 2 to Paris and repeated as No. 8 to Berlin and No. 13 to the Foreign Office where it was received on March 26.

² No. 5.

No. 10

Sir E. Phipps (Vienna) to Lord Tyrrell (Paris)

No. 3¹ Telegraphic [C 1953/673/3]

VIENNA, March 25, 1931

My immediately preceding telegram.²

Following for Secretary of State:—

Dr. Schober has been in telephonic communication with Dr. Curtius who

¹ This telegram was sent as No. 3 to Paris and repeated as No. 9 to Berlin and No. 14 to the Foreign Office where it was received on March 26.

² No. 9.

tried to induce him to reply to you in terms similar to German reply as given by Sir H. Rumbold. This Dr. Schober tells me he refused to do in spite of the fact that Austrian-German replies do not tally.

No. 11

Lord Tyrrell (Paris) to Sir H. Rumbold (Berlin)

No. 2¹ Telegraphic: by telephone [C 1957/673/3]

PARIS, March 26, 1931

Following from Secretary of State:—

Your telegram No. 1.²

German Government do not seem to have understood my proposal rightly. It was simply to effect that before two Governments proceed further opportunity should be given to Council to assure itself that the proposed treaty was not contrary to 1922 protocol. This does not seem, as German Government suggest, to involve examination of treaty from political standpoint. Question would be whether it infringes in any way terms of financial protocol of 1922. It is probable that Council would be reluctant to pronounce on so technical and judicial a question without seeking opinion of court, and I should support such a procedure.

Please make communication to German Government accordingly.

¹ This telegram was sent as No. 2 to Berlin and repeated as No. 2 to Vienna and No. 57 to the Foreign Office where it was received on March 26.

² No. 7.

No. 12

Sir H. Rumbold (Berlin) to Lord Tyrrell (Paris)

No. 6¹ Telegraphic: by telephone [C 2019/673/3]

BERLIN, March 26, 1931

Following for Secretary of State:—

I communicated your telephone message No. 2² to the Minister for Foreign Affairs directly after receipt.

He stated that the Chancellor had perfectly understood your proposal, and he could only repeat what Dr. Brüning had said to me yesterday, as reported in my telegram No. 1.³ In order that there should be no misunderstanding he said he would consult Chancellor again, and he has just made following statement to me at the second interview:—

'The German and Austrian Governments, in conformity with their agreement, propose to continue the technical preparation for the conclusion of the definite treaty. These preparations cannot be concluded for two or three months at the least. Thus there will be no *fait accompli* before the next meeting of the Council. The German Government, for their part, see no

¹ This telegram was sent as No. 6 to Paris and repeated to Vienna and as No. 59 to the Foreign Office where it was received on March 26.

² No. 11.

³ No. 7.

reason to refer proposed treaty to the League Council, since they are satisfied that it is not contrary to the protocol of 1922. The Powers signatory to the protocol are, of course, at liberty to refer the treaty to the Council, but the German Government must reserve complete liberty of action with regard to any procedure which may be suggested to the Council.'

Minister for Foreign Affairs explained that the Chancellor did not understand the proposal to refer the treaty for examination to the Council as suggesting its examination from a political standpoint, but wishing to make it clear that, in his view, an examination from such a standpoint was not admissible.

Personal message from Sir H. Rumbold to the Secretary of State:—

The German Government deprecate any communication to the press, as they do not propose to make any such communication themselves regarding Sir H. Rumbold's *démarche* of to-day, but if, however, Secretary of State or Lord Tyrrell wishes to make any such communication, Sir H. Rumbold sincerely hopes they will not do so without first informing him, as it would place him in an invidious position *vis-à-vis* the German Government.

No. 13

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 345 [C 2014/673/3]

Sir,

FOREIGN OFFICE, *April 9, 1931*

In accordance with the arrangement I had made with M. Briand on the previous evening, I called on him at the Quai d'Orsay at 11 o'clock on the 25th March, accompanied by Lord Tyrrell, Mr. Selby and Mr. Cadogan.

2. I told M. Briand that I had that morning despatched to Berlin and Vienna a telegram authorising His Majesty's representatives in those capitals to draw the attention of the German and Austrian Governments to the serious anxiety caused in many quarters by the announcement they had made as regards an Austro-German customs arrangement, and urging them not to proceed with further arrangements until the Council of the League had had an opportunity of pronouncing whether the contemplated arrangement was or was not a violation of undertakings entered into by the Austrian Government. The context of my telegram No. 1¹ of the 25th March to your Excellency was read over to M. Briand. He expressed himself as grateful for the action I had taken. He said that, according to telegrams which he had received from the French representative in Vienna, M. Schober was showing himself anxious in regard to the reception which had been accorded to the new departure of policy of Austria, and it seemed to M. Briand that the Austrians would be glad of finding a way out. The Austrian Government were urgent in their explanations that up to the moment no treaty had been concluded. M. Briand said that the manner of the announcement was really inadmissible. None were more insistent than the German Government in

¹ No. 5.

their demand for collaboration with the other Governments of Europe, and M. Briand said he had done all that he could to meet this position. Indeed, on more than one occasion he had been thanked by the German Government for his attitude in this respect. M. Briand said that the development had really come at a most unfortunate moment, when the atmosphere was favourable, and now the German Government had thrown this stone to ruffle the waters. I told M. Briand that I was in agreement in regard to the clumsiness of the German action. It was my intention to issue a short statement¹ to the press indicating to them the action which I had taken, and I hoped that when our representatives made a strong appeal to the two Governments concerned they would not carry the matter further until the League had had an opportunity of reviewing the situation. I think that the action which was taken was in full conformity with the views of Dr. Benes. M. Briand said that the attitude which I had taken up conformed entirely with the views of the French Government.

I am, &c.

ARTHUR HENDERSON

¹ This statement was issued on the evening of March 25.

No. 14

Sir H. Rumbold (Berlin) to Mr. A. Henderson¹

No. 26 Telegraphic [C 2026/673/3]

BERLIN, March 26, 1931

Following for Secretary of State.

Sir R. Vansittart's telegram No. 46 to Paris.²

As regards the question of political union I agree with views expressed by Sir R. Vansittart. I do not believe the German Government have any intention of raising this question for some time to come. From their own standpoint it would be undesirable for them to do so both for reasons of internal and foreign policy. I submit that His Majesty's Government should therefore be particularly sure of the necessity of action and careful of their ground before themselves taking any steps which would bring up the question of political union in Germany. For such action would greatly embarrass the Chancellor and might well have consequences the reverse from those desired.

On the other hand Sir E. Phipps' telegrams No. 1³ and No. 3⁴ to Paris

¹ This telegram was sent as No. 8 to Paris and repeated to Vienna and as No. 26 to the Foreign Office where it was received on March 27.

² Not printed. In this telegram of March 24 Sir R. Vansittart informed Mr. Henderson that, on a preliminary view, the German and Austrian Governments did not appear to be contemplating any serious breach of a treaty engagement, but that the proposed treaty would have the effect of rendering easier a political union between the two countries. Sir R. Vansittart, however, did not think that either country intended to raise in the near future the question of a political union.

³ No. 6.

⁴ No. 10.

indicate that Austrians are inclined to back (? down)¹. Germans have their own explanation as to the necessity for immediate publication of their agreement, namely, leakage in Vienna. Should this Austrian attitude continue or develop it may disturb existing harmony between German and Austrian Governments and delay economic negotiations which in any case in the opinion of many competent observers are bound to be both prolonged and very difficult.

While Chancellor is now being firmly supported objections of business and agricultural interests affected may be raised later. Any outside interference which is not based on legal and convincing grounds is liable to be represented as an attempt to bully Germany and to be exploited to detriment of ex-Allies.

Meanwhile I have done all I could to persuade the Chancellor to accept your proposal. Evening press announces that it is pointed out in official quarters that Germany will in no way avoid a legal discussion concerning principles agreed upon with Austria.

¹ The text here is uncertain.

No. 15

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 322 [C 2115/673/3]

Sir,

FOREIGN OFFICE, *March 31, 1931*

I called upon M. Briand at the Quai d'Orsay, accompanied by Lord Tyrrell, Mr. Selby and Mr. Cadogan, at 10 o'clock on the 26th March. M. Briand was accompanied by M. Charles Dumont, Admiral Deleuze, M. Massigli and M. Léger, in anticipation of a discussion in regard to the difficulty which had arisen owing to the course of the discussions in London in regard to the agreement which had been reached between His Majesty's Government, France and Italy on the subject of naval limitation. I told M. Briand that, before discussing the naval issue, I should like to tell him that I had received replies through His Majesty's Ambassador at Berlin and His Majesty's Minister at Vienna to the representations which I had addressed on the previous day to the German and Austrian Governments in regard to the question of the negotiations between the Austrian and German Governments for a customs union. I said that the reply of the German Government was not altogether satisfactory, as they seemed to have misapprehended the proposal that I had made to them. I read to M. Briand accordingly a further telegram (see my telegram No. 2¹ of the 26th March from Paris) which I proposed to address to His Majesty's representatives in Berlin and Vienna, adhering to the position which I had taken up.

2. M. Briand expressed himself as in full agreement with the further representations which I proposed. He was in entire agreement that the question should be dealt with on the economic issue, but it might be difficult to distinguish between the political and the economic issue, and in any case the

¹ No. 11.

question was one which was provided for in the Covenant of the League of Nations, and it must be for the Council of the League of Nations to decide. From information which had reached him from the French representative in Vienna, M. Briand said he felt convinced that Dr. Schober had been precipitated into these negotiations by the German Government, and his impression was that Dr. Schober was in a hurry to retreat from the position which he had taken up. As regards the German Government, M. Briand felt that they, too, were not very sure of their ground, and that if it was made clear to them that we considered the question must be one for the Council of the League to decide, the German Government could be brought round to acceptance of this view. M. Briand went on to say that the memorandum which had been communicated by the German Government was similar in every particular to a document prepared in 1917, dealing with the question of the creation of a German *bloc* in Central Europe. He intended to have the matter carefully investigated, as in 1917 the move was of a definite political nature, and if connexion could be established between the policy contemplated in 1917 and that under discussion now, it was a strong argument against the step which Germany and Austria now proposed to take.

I am, &c.

ARTHUR HENDERSON

No. 16

Lord Tyrrell (Paris) to Mr. A. Henderson (Received March 28)

No. 61 Telegraphic: by bag [C 2048/673/3]

PARIS, March 27, 1931

It may be useful to submit at this stage a summary of the manner in which the French Government and opinion have received the Austro-German agreement to negotiate a customs union. The protest which M. Briand made to the German Ambassador on March 21 on the ground that the agreement violated the 1922 protocol seems to have been somewhat hastily made on the basis of inadequate information; and it appears that the legal advisers of the Ministry for Foreign Affairs are now in some doubt if the agreement is in conflict with the existing obligations of Austria and still less of Germany. On the other hand the secrecy with which the agreement was negotiated, the logical continuance which it seems to constitute of the pre-war and war policy of Germany to Austria and the new and important step which it is held to make towards the *Anschluss*, is [*sic*] arousing increasing attention. These facts seem to have been the main cause of the reference in the communiqué issued after the Cabinet meeting on March 23 to the French Government's intention to secure that the treaties be respected.

2. These were the circumstances in which your instructions were issued on March 25 to His Majesty's Representatives at Berlin and Vienna to express to the German and Austrian Chancellors the hope that before the Treaty was proceeded with, an opportunity would be given to the Council of the League of Nations to give its opinion on the conformity of the proposed customs union

with existing obligations, particularly with the protocol of 1922. As you are already aware your action was much appreciated and had a calming effect and thus prevented any further precipitate action. I understand that the French Government were also pleased that an interval would necessarily elapse until the Council considered the matter at its May meeting. It is felt that this gives time for reflection by all concerned and for quiet diplomatic pressure on the German and Austrian Governments, the latter of whom is thought here to be already a little shaken in its intentions. This line is being taken by most of the government newspapers to-day.

3. It is important, however, that it should be realised that the French Government are almost certainly determined, whether or not the proposed customs union proves to be in conformity with the letter of the existing obligations of Austria and Germany, to make a most vigorous attempt to secure the abandonment of the policy which it would constitute. This fact is clear from information reaching me from quarters in the closest touch with M. Briand and from the indications which are being put out in a number of newspapers. On the necessity of an attempt of this kind French opinion is united. It is the opinion even of the foremost advocates of Franco-German co-operation, certainly of such leaders as M. Herriot and probably of M. Blum himself.

4. There is no desire as a matter of tactics to bring to the front the political side of the question, and it seems that for this reason the French Government intend to emphasise publicly the fact that it is the juridical aspect of the proposed union which is to be examined by the Council of the League. On the other hand if the German and Austrian Governments do not find on technical or other grounds some means of receding from the policy on which they have embarked, it seems to be thought inevitable that the political side of the question will be raised, thereby entailing a grave risk to the Briand policy of conciliation and to the prospects of the Disarmament Conference.

5. Importance is attached here to the resolution adopted yesterday by the Customs Commission of the Chamber of Deputies urging the Government to oppose the customs union, and, should it mature, to denounce the Franco-German and Franco-Austrian commercial treaties and negotiate with the other European countries a general commercial agreement in place of the existing bilateral agreements. Both the President of the Council and M. Briand have received the Customs Commission today.

No. 17

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received March 31)

No. 221 [C 2086/673/3]

Sir,

BERLIN, March 27, 1931

It may be useful if I submit a few comments on and explanations in connexion with my recent telegrams to you on the attitude of the German Government towards your proposal that, before proceeding further, the

German Government should give the Council of the League an opportunity of assuring itself that the proposed customs union with Austria is not contrary to the obligations undertaken by Austria in virtue of the protocol.

2. On receipt of your telegram No. 1¹ from Paris I asked Dr. Brüning to receive me. He first of all fixed the interview at 4 p.m. at the Reichstag, but subsequently changed the hour to 7 p.m. at his official residence. This presumably gave him time to consult his colleagues and to get into touch with the Austrian Government. Meanwhile, the German Government had received the Havas communiqué giving an outline of your instructions to me. The Chancellor was, therefore, fully prepared to deal with my *démarche*, apart from the fact that, as your telegram was in the form of a telephonic message, the German Government would doubtless have had means of tapping it. After I had read to him your instructions to myself and had submitted the further considerations recorded in my telegram No. 1² to Paris, he read his reply from a note which he had prepared and which I subsequently asked him to give me so that there should be no possibility of misunderstanding with regard to his answer. This note was textually given out to the German press yesterday morning. His attitude throughout the interview was absolutely firm, and I could not shake him in the least. When, after acquainting me with his reply to your proposal, he went on to make the observations recorded in my telegram No. 2³ to Paris, I could see that he was imposing considerable restraint on himself, and his language was that of suppressed bitterness.

3. On receipt of your telephonic message of yesterday (your telegram No. 2⁴ from Paris), I at once arranged to see the Minister for Foreign Affairs, to whom I again explained the bearing of your proposal. I said that the German Government could surely suspend their technical discussions with the Austrians until the League Council could examine the legal aspect of the proposed treaty. Dr. Curtius replied that he could only repeat the answer given to me by the Chancellor the previous evening, but that, in order that there should be no mistake, he would again consult Dr. Brüning and receive me later in the day.

4. His Excellency accordingly received me shortly before 4 o'clock in the afternoon, and I had meanwhile prepared the draft of a telephonic message to you based on what he had said in the morning. As experience has shown that misunderstandings are not infrequent where the German Foreign Office is concerned, I took this draft down with me in order to make certain that it corresponded to what Dr. Curtius had said to me. The telephonic message, as contained in my telegram No. 6⁵ to Paris, was therefore actually modified and completed in Dr. Curtius's room, and I would draw particular attention to the statement made by Dr. Curtius that 'the German Government must reserve complete liberty of action with regard to any procedure which may be suggested to the Council'. This statement was taken down and translated by me in the presence of Dr. Gaus, the legal adviser to the Ministry, who had meanwhile been sent for. It appears to me to represent a modification of the

¹ No. 5.

² No. 7.

³ No. 8.

⁴ No. 11.

⁵ No. 12.

non possumus attitude of the Chancellor on the previous evening. In fact, the statement in question, coupled with the repeated assurances of both German Ministers that the technical preparations for the proposed treaty will take at least two or three months, that the Council of the League will not, therefore, be faced with a *fait accompli*, and, finally, the announcement in yesterday's evening papers that it is pointed out in official quarters that 'Germany will in no way avoid the legal discussion concerning the principles agreed upon with Austria', appear to indicate a realisation that the projected Austro-German Customs Union will come up for discussion at the next Council meeting.

5. My telegrams will have shown you that Dr. Brüning has public opinion and the press behind him in his attitude towards your proposal. In my view, it was, indeed, impossible for him to give way. If he had done so, he would have been accused by all parties of yielding to foreign pressure in a question in which the German Government consider that they have exercised a legitimate right. He has, in the face of considerable difficulties, brought the Government's business in the Reichstag to a satisfactory conclusion, and has weathered a difficult winter. His prestige on that account is high in the eyes of the country, but would have been seriously impaired had he accepted your proposal. He genuinely feels that Germany's case is a good one in this matter, though, if that is so, he could, from our point of view, have afforded to have awaited with confidence a reference to the League of the legal aspect of the proposed treaty with Austria.

6. The method chosen by the German Government in preparing and publishing their agreement with the Austrian Government is another matter, about which much could be written. I reproached the German Chancellor, in fact, with exploding a bomb at the opening of the discussions in Paris in connexion with the Organisation Committee on European Union. But there is still another consideration, which is that he feels that he has to show the country some results. This is the first time since the war that Germany has asserted herself in an important matter. We must expect, under this Chancellor, to see Germany affirming with increasing emphasis any rights to which she thinks she is entitled.

7. I am forwarding a copy of this despatch to His Majesty's Minister at Vienna.

I have, &c.

HORACE RUMBOLD

No. 18

*Mr. A. Henderson to Sir H. Rumbold (Berlin)*¹

No. 303 [C 2020/673/3]

Sir,

FOREIGN OFFICE, March 28, 1931

The German Ambassador called at the Foreign Office on the 25th March and saw the Permanent Under-Secretary of State. Sir Robert Vansittart

¹ A similar despatch (*mutatis mutandis*) sent to Vienna as No. 96 on March 28.

informed Herr von Neurath for his own information of the steps in regard to the Austro-German proposals for a customs union that were being taken by your Excellency and by His Majesty's Minister at Vienna on my instructions.

2. The Ambassador merely observed that, in his opinion, were the scheme to be abandoned in consequence of reference to the League Council, the result would be a great accretion of strength to the German extremists and the fall of Dr. Brüning.

I am, &c.

ARTHUR HENDERSON

No. 19

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received March 30)

No. 28 Telegraphic [C 2084/673/3]

BERLIN, March 30, 1931

Paris telegram No. 61.¹

I think it is equally important that it should be realised that the Brüning Government will not abandon the proposed customs union with Austria. They feel that for one thing they are on strong ground. Reasons given for this view are contained in my despatch No. 221² of 27th March, which went by last bag. Unless, therefore, the French Government handle this matter very carefully it may devolve into a personal and public struggle between MM. Briand and Brüning, which would be all the more deplorable in view of importance of each protagonist to his own country and to Europe.

(Repeated to Paris and Vienna.)

¹ No. 16.

² No. 17.

No. 20

Mr. A. Henderson to Sir R. Graham (Rome)

No. 370 [C 2108/673/3]

Sir,

FOREIGN OFFICE, March 30, 1931

The French Chargé d'Affaires called at the Foreign Office on the 30th March and left a draft of a memorandum which the French Government suggested should be communicated to the Austrian Government by the four Powers signatory to Protocol No. 1 of 1922. This draft memorandum, of which a copy is enclosed, acquaints the Austrian Government with the decision taken in common by the four Governments to bring before the Council of the League of Nations the questions raised by the proposed economic union agreed upon in the Austro-German Protocol of the 14th March last, and to ask the Council to pronounce upon the compatibility of this proposed agreement with the protocol referred to above. It goes on to recount the conditions under which Austria received her loan in 1922 and the bearing of these upon submission to the Council of the questions arising out of the Austro-German

agreement, reminds the Austrian Government of the right of every member of the League to bring to the attention of the Council matters likely to prove disturbing to international relations, and invites them to refrain from negotiations in respect to the proposed economic agreement with Germany until the deliberations of the Council of the League shall have taken place.

2. In reply to his proposal, the French Chargé d'Affaires was given the substance of the statement¹ which I made later in the day in the House of Commons, where, after describing fully the communications which had passed between me and the German and Austrian Governments, I said:—

'It is my intention to give notice to the Secretary-General of the League of Nations of my wish to discuss at the next Council meeting the compatibility of the proposed agreement with Austria's treaty obligations, particularly under the Protocol of 1922, and, if there is a general desire that the Council should be assisted by an advisory opinion from the Permanent Court of International Justice, I shall certainly support a reference to that court. The Austrian Government will, of course, in accordance with the standing rules, be invited to participate in these discussions, and the communication from them which I have just quoted implies, I am glad to say, that such an invitation would be accepted. The German Government's response to my explanations recognises, as I understand it, the propriety of a reference to the Court, while reserving their rights in respect to any procedure there proposed to be followed. I am glad from this to infer that the other members of the Council will have the benefit of the German view of the question submitted, a question, I may add, so eminently and incontestably suitable for such procedure, and I earnestly hope that it may be found when the time comes that negotiations between the Austrian and German Governments will not have been so advanced as to prejudice the friendly atmosphere in which matters are normally dealt with by the Council.'

3. I told the French Chargé d'Affaires that it seemed to me that I had in that statement anticipated the intention of the French Government and that nothing more in the same sense need now be said to the Austrian Government so far as I was concerned, but I undertook to express the strong hope in Rome and Prague that the Italian and Czech Governments would for their part take the same line as that in which I intended steadily to go forward. I had, I thought, said as much as was judicious for the moment about the discontinuance of the Austro-German negotiations, and it would, in my view, unquestionably be wisest not even to consider more formal representations on this point until it had become quite clear how Austria and Germany were going to react to my statement in the House of Commons as a whole, and particularly to the passage referring to Austrian and German participation in the deliberations of the Council.

I am, &c.

ARTHUR HENDERSON

¹ *Parl. Deb.*, 5th Ser., vol. 250, cols. 716-25.

Projet de Mémoire

Les représentants des quatre Puissances signataires du Protocole de Genève, No. 1, en date du 4 octobre 1922, ont l'honneur de faire part au Gouvernement autrichien de la décision commune de leurs Gouvernements de saisir le Conseil de la Société des Nations des questions que pose le projet d'Union économique établi par le Protocole austro-allemand, du 14 mars dernier, et de demander notamment au Conseil de se prononcer sur la concordance de ce projet avec les stipulations du Protocole précité du 4 octobre 1922.

Ils rappellent que le Protocole de Genève du 4 octobre 1922, et la garantie qu'il accorde à un emprunt autrichien de 650 millions de couronnes-or, ont pour origine le pressant appel adressé par l'Autriche au Conseil suprême de Londres d'août 1922.

Le Ministre d'Autriche y faisait connaître que les banquiers refusaient toute avance nouvelle à l'Autriche, à défaut d'une garantie des principales Puissances alliées. Le Conseil suprême renvoya l'affaire 'pour examen et rapport' à la Société des Nations. A Genève, en séance publique, le 6 septembre 1922, Mgr. Seipel exposa l'état désespéré de l'Autriche et déclara que, faute du concours des Puissances alliées, la situation constituerait un sérieux danger pour la paix du monde.

C'est dans ces conditions que les États garants déclarent, dès les premiers mots du protocole, 'agir uniquement dans l'intérêt de l'Autriche et de la paix du monde'.

L'engagement du Gouvernement autrichien, qui figure à ce protocole, est la contre-partie de la déclaration des Puissances garantes. (Si) l'Autriche (ne s'était) pas engagée à ne pas laisser 'porter atteinte à son *indépendance économique* par l'octroi à un État quelconque d'un régime spécial ou d'avantages exclusifs, de nature à menacer cette indépendance', les Puissances n'auraient pu accorder leur garantie.

Le Gouvernement autrichien, qui a invoqué en 1922, auprès de la Société des Nations, l'intérêt de la paix générale et a reçu l'aide vitale des quatre Puissances, ne saurait aujourd'hui se dérober (en se prévalant de nécessités pressantes d'ordre économique et d'insuccès de tentatives antérieures, en vue d'améliorer ses relations commerciales), ni méconnaître la compétence du Conseil à se prononcer sur la conformité entre le projet d'entente économique austro-allemande et l'engagement qu'il a contracté en 1922, ni, en une matière aussi grave, placer le Conseil en présence du fait accompli.

En conséquence, les quatre Gouvernements signataires du Protocole de 1922, rappelant au Gouvernement autrichien que le Traité et le Pacte permettent à tout membre de la Société des Nations de déférer au Conseil les différends susceptibles de troubler gravement les relations internationales, l'invitent à s'abstenir de toute négociation afférente à l'entente économique envisagée jusqu'à ce que le Conseil de la Société des Nations en ait délibéré.

Sir E. Phipps (Vienna) to Mr. A. Henderson
No. 16 Telegraphic: by telephone [C 2082/673/3]

VIENNA, March 30, 1931

Dr. Schober summoned all the foreign heads of missions to the Ministry for Foreign Affairs this morning and read to us the following statement in French:—

‘During the conversations which took place recently with Dr. Curtius when he was at Vienna the economic relations between Austria and Germany were submitted to a searching examination. The Treaty of Commerce signed last year at Berlin and recently ratified in Austria gravely disappointed Austrian economic circles. This disappointment brought about the desire to find a solution more favourable to Austria’s requirements. Moreover the Austro-German Commercial Treaty lost still more of its value owing to the development which had meanwhile taken place in the economic relations of the two countries with third States. The two Ministers for Foreign Affairs therefore agreed to make an attempt to serve at the same time the idea of European Union and their own interests, that is to say, to create in the framework of pan-European ideas a system which would not fall under the principle of the most-favoured-nation clause, which is generally called the customs union. Directly an agreement in principle was established in regard to this intention it was decided to inform the two Governments and then to fix the essential bases in a *procès-verbal*, and finally to inform the respective foreign Governments to enter into negotiations for that purpose. Another interview between the two Ministers for Foreign Affairs was to be arranged at a subsequent date before the session of the Commission d’études for European Union at the beginning of May. This procedure, however, could not be followed for the German Government considered it necessary to inform the foreign Governments before the meeting of the Committee of Organisation on March 24 at Paris.

‘Consequently the question was brought before the two Cabinets on March 18 and 19 respectively. On March 19 an exchange of letters showed the agreement of the two Governments, on March 20 the General Committee of the Austrian National Council was informed, and on March 21 notification was made to the foreign Governments.

‘The Austrian Government particularly wishes to impress on the foreign Ministers accredited at Vienna that it had no intention whatsoever of acting by surprise or of creating a *fait accompli* and that it was the desire to inform the foreign Governments as soon as possible which was the cause of its haste (*empressement*), and which consequently gave the impression that it was acting in a sudden manner.

‘The Austrian Government wishes to repeat that up till now no Treaty has been concluded, that no draft of a Treaty exists, but only an agreement of the two Governments respecting the essential bases of a Treaty to be concluded in the future. I confess that I do not understand how, in these circumstances

one can talk of a *fait accompli* which would be of a nature to disturb the peace of Europe.

'Gentlemen, allow me, therefore, to beg you to bring to the notice of your Governments the explanations which I have just given you, and to assure you that the Austrian Government in its action is only inspired by the desire to serve and to consolidate peace in Europe, and that it does not follow any contrary purpose.'

No. 22

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received April 2)

No. 228 [C 2205/673/3]

Sir,

BERLIN, March 30, 1931

A German acquaintance, who has considerable business interests in Czechoslovakia, Paris and elsewhere, and is in close touch with Herr Treviranus, Minister without portfolio, telephoned to me a few days ago for an appointment to discuss the projected Austro-German Customs Union. As I have hitherto found this acquaintance both reliable and well informed, I asked him to call the day before yesterday, the 28th instant.

2. My informant began by saying that he wished to acquaint me with the genesis of the proposed Austro-German Customs Union. According to him, the idea originated with Dr. Riedl, the former Austrian Minister here. Dr. Riedl had come to the conclusion that the prospects of concluding a commercial treaty between his country and Germany were hopeless, and that the only way of bringing relief to Austrian economy was for Austria to conclude some sort of a customs union with Germany. He had conceived this idea fully a year ago and had brought Dr. Schober round to his view. . . .¹

3. As a further proof of the secrecy with which this agreement has been negotiated, my informant stated that it had taken even some of the German Ministers by surprise, and I understand him to say that some of those Ministers had known nothing of the matter so lately as a fortnight ago.

4. I met the Austrian Minister the same evening at a dinner given by the president of the Reichsbank. Incidentally, I noticed with some interest that Dr. Riedl was present at this dinner. I subsequently had a long conversation with Dr. Frank, the Austrian Minister, of which the following is the upshot:—

5. I said that he would have noticed the sensation and unfavourable criticism aroused abroad by the sudden revelation of the Austro-German agreement. Why had there been such secrecy? The Austrian Minister, who emphasised that he was speaking in a purely personal capacity, replied that when two people are about to become engaged they do not publish their intentions, but wait until their engagement is an accomplished fact. He subsequently admitted, however, that the matter might have been better handled, and it was clear to me that the sensation aroused by the sudden

¹ The passage omitted contains a personal reference to a third party. The reference has no bearing upon the Austro-German discussions.

publication of the agreement, as well as the diplomatic action to which it had given rise, had produced a considerable impression on him. In fact, I had a feeling that the Austrian Government were almost getting an attack of 'cold feet'. I said that I hoped that he would admit that your proposal had been a practical and a reasonable one. It had probably saved both the German and Austrian Governments from something much more unpalatable. He heartily agreed and considered that you had handled the question very well. In fact there is, I think, an increasing realisation that your proposal has acted as a sort of lightning-conductor to possible French action of a severer character. But Dr. Frank observed that, had the Austrian and German Governments agreed to hold up their negotiations, they might have felt that they were admitting that there is a *prima facie* case against them, or else that they required, as other States do not, the Council's sanction to negotiate.

6. Dr. Frank, again emphasising that he was only expressing a personal view, went on to wonder whether it would be possible to enter into some sort of negotiations ('Verhandlungen') with the Western Powers, but more especially with the French Government, with a view to arriving at some solution which would save the face of the Governments concerned. If such pressure were brought to bear on the Austrian and German Governments as to make it necessary for them to abandon the projected customs union, both Governments would fall. Continuing, he admitted that he did not quite see what the basis for such negotiations could be. It might perhaps be possible to give the French Government assurances that the proposed customs union had no ulterior political object. He assured me positively that the question of the 'Anschluss' had played no part whatever in the consideration of the projected Austro-German Customs Union. He himself belonged to the 'Anschluss' party, but he considered that the projected customs union would practically kill the 'Anschluss' question, since Austria, in virtue of such a customs union, obtained what she mainly wanted, which was a large market for her goods.

7. I said that I understood that the Austrian duties were at present on a lower level than the German duties, and that the effect of the customs union would be to raise the tariff wall as far as Austria was concerned. Dr. Frank admitted that this would be so, but said that the Austrian Government were anyhow intending to raise their duties and that there was a Bill on the subject before the Austrian Parliament at the present moment.

8. Finally, he said that he did not underrate the material and technical difficulties of reaching a customs union between his country and Germany. I would have noticed, he said, that the German agrarians were already sounding a note of alarm at the possibility of the infiltration of agrarian produce from the Balkans through the 'hole in the south'. But there was no doubt that, in this question, both the German and Austrian Governments had the public opinion of their respective countries as a whole behind them.

9. I am sending a copy of this despatch to His Majesty's Minister at Vienna.

I have, &c.

HORACE RUMBOLD

No. 23

Sir E. Phipps (Vienna) to Mr. A. Henderson (Received March 31)
No. 17 Telegraphic [C 2133/673/3]

VIENNA, March 31, 1931

I communicated to Dr. Schober this morning text of your statement¹ in the House of Commons as given in your telegram No. 80 to Rome, drawing his special attention to the last sentence. Dr. Schober promised me solemnly, and authorized me to repeat his promise to you that Austrian Government would not present us with a *fait accompli* before date of May meeting of Council.

Dr. Schober would personally like the matter discussed in the first instance by Pan-European Commission which meets before Council. Austrian representative at Geneva reports that legal opinion in League circles is favourable to Austro-German protocol.

¹ See No. 20, paragraph 2.

No. 24

Sir E. Phipps (Vienna) to Mr. A. Henderson (Received March 31)
No. 18 Telegraphic [C 2135/673/3]

VIENNA, March 31, 1931

My immediately preceding telegram.¹

Dr. Schober expressed to me his surprise at Germany's unwillingness to give a similar promise. I remarked that from a practical point of view his would seem sufficient as it took two to make a bargain and we could trust Austria not to conclude it before Council meeting. The main thing was to save face of German Chancellor and of French Minister for Foreign Affairs and to avoid letting question develop into a matter of prestige. Dr. Schober agreed. He then read me a passage from a report just received from Austrian representative at Geneva stating that surprise was felt there at Germany's unwillingness to allow matter to be discussed at Pan-European Commission in May. Dr. Schober added that he could not understand Germany's attitude.

¹ No. 23.

No. 25

Sir E. Phipps (Vienna) to Mr. A. Henderson (Received April 13)
No. 124 [C 2419/673/3]

Sir,

VIENNA, April 8, 1931

The French Minister came to see me on the evening of the 6th instant and told me that he had that morning had an interview with the Vice-Chancellor, Minister for Foreign Affairs, in the course of which he had extracted a definite promise that the Austrian Government would not even begin the negotiations with Germany for a customs union before the meeting of the Council of the League of Nations in May.

2. Count Clauzel said that he had informed Dr. Schober of the failure of the French Ambassador at Berlin to extract such a promise from Dr. Curtius, who had somewhat acidly remarked to M. de Margerie that the negotiations would be opened directly after Easter. Dr. Schober replied, however, that the German refusal had no importance seeing that the proposals for intermediate duties must be made by Austria, and that he undertook not to make them before the date mentioned. These duties, it seems, will be one-sided ones, that is to say, they will only be imposed upon goods coming into Austria from Germany and not *vice versa*. Dr. Schober's promise is not quite so valuable as he would like it to appear, for I gather that the preliminary and indispensable negotiations of the Austrian Government with their own industrials will be long and tedious.

3. Dr. Schober then proceeded to beg Count Clauzel to urge the French Government to provide a happy issue to Austria's afflictions by making some helpful suggestions with a view to increasing the participation in the customs union. The fact is he evidently wishes to have it both ways. On the one hand, he did not dare to offend Germany by looking askance at the latter's offer; on the other, he is anxious to retain the goodwill of France and Great Britain, from the former of whom he hopes before long to obtain the second *tranche* of the Austrian loan.

4. I am sending a copy of this despatch to His Majesty's Ambassador at Berlin.

I have, &c.

ERIC PHIPPS

No. 26

Foreign Office to the Secretary-General, League of Nations (Geneva)

[C 2150/673/3]

Sir,

FOREIGN OFFICE, April 10, 1931

I am directed by Mr. Secretary Henderson to request that you will insert in the agenda of the Sixty-Third Session of the Council of the League of Nations the following item:—

'Austro-German Protocol for the Establishment of a Customs Union.'

2. The members of the Council, whose attention has doubtless been drawn to the above protocol, will probably be aware that doubts have been expressed whether the régime which it contemplates would be compatible with the obligations of the Austrian Government under the protocols of the 4th October, 1922.

3. Seeing that the last-named protocols were negotiated under the auspices of the Council, His Majesty's Government in the United Kingdom consider it of the highest importance that all such doubts as have been expressed should be cleared up at the earliest possible moment, and with this object they think it appropriate that the matter should be examined by the Council itself.

I am, &c.

ORME SARGENT

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 394 [W 4282/7/98]

Sir,

FOREIGN OFFICE, *April 16, 1931*

The German Ambassador called upon me at the Foreign Office to-day to communicate to me, on the instructions of his Government, a telegram, the text of which is given in the enclosure herein, which had been addressed to the Secretary-General of the League of Nations in regard to two items which the German Government were desirous should be added to the agenda of the meeting of the Commission of Enquiry into European Union which was to be held on the 15th May. I took note of the communication of the German Ambassador, and told him that I was very carefully considering the position as regards the proposed Austro-German customs arrangement, and that I might be in a position, in the course of a few days, to make a further communication to him. I pointed out to the Ambassador that it was most unfortunate that the hitch as regards the naval understanding and the apprehensions created by the proposed Austro-German arrangement had occurred at the same time, as I felt that the effect had been to undermine the very favourable atmosphere which had existed only a few weeks ago, and that the prospects of the Disarmament Conference had to some extent been affected.

I went on to discuss with the German Ambassador the arrangements for the visit of the German Ministers on the 5th June,¹ and told him that there would be a dinner at the Foreign Office on the Friday night. The Ambassador said that he would probably give an entertainment at the Embassy on the following Monday.

I am, &c.

ARTHUR HENDERSON

¹ For this visit, see below, Chapter II.

ENCLOSURE IN No. 27

Note communicated by the German Ambassador

(Translation)

On the 14th April, the German Foreign Minister addressed the following telegram to the Secretary-General of the League of Nations in his capacity as Secretary-General to the Commission of Enquiry into European Union:—

‘In view of the regulations proposed by the Committee of Organisation for the fixing of the agenda of the Commission of Enquiry into European Union, I have the honour to propose on behalf of the German Government that, under No. 3 (Economic Questions), the following two points should be put on the agenda of the meeting of the commission on the 15th May:—

“ (1) *Development of Tariff Relations in Europe*

“ The German Government consider it opportune to discuss once again the situation resulting from the present state of tariff relations in Europe

and from the failure of the Commercial Convention of Geneva of the 24th March, 1930.

“The German Government on this occasion wish to inform the Commission of the objects which they are pursuing in this matter in agreement with the Austrian Government. The German Government also think it advisable at the same time to discuss once more the possibilities of a better exchange of goods in Europe which would arise from agreements on preferential tariffs.

“(2) *Duty-free Importation of Fuel for Motor Vehicles and Motor Craft crossing the Frontiers by Land, Water and Air*

“During the last years the use of motor vehicles and motor craft in European traffic has increased to an extraordinary degree—by land, by water and air—whilst most of the European countries have not fully adjusted their legislation to this development, especially with regard to the duty-free admission of motor fuel, used by motor vehicles crossing the frontiers. This fact has until recently prevented even those European countries which were prepared to consider the necessities arising out of this traffic development from dealing with this question.

“A uniform regulation, which would have to take into account both the necessities of European traffic and the fiscal interests of the European countries therefore appears desirable.”

LONDON, April 15, 1931.

No. 28

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received April 23)

No. 292 [C 2706/673/3]

Sir,

BERLIN, April 17, 1931

With reference to my telegram No. 34¹ of to-day's date, I have the honour to enclose a memorandum by the commercial counsellor on a conversation which he had at the Ministry for Foreign Affairs with the head of the Economic Department concerning the proposed Austro-German Customs Union.

2. In the course of this conversation Dr. Ritter informed Mr. Thelwall with some emphasis that since the general invitation which was extended when the protocol was published the German Government had not approached any country whatsoever with suggestions to join the proposed Austro-German Customs Union or any other customs union or to form one with Germany. Dr. Ritter added that Germany was not now discussing the customs union with any other country, and that even the conversations with Austria had been suspended. Dr. Ritter thereupon gave an interesting account of the genesis of the customs union proposals, and the motives inspiring the launching of the proposal at this time.

¹ Not printed. In this telegram Sir H. Rumbold reported that at the suggestion of the Austrian Government the German-Austrian negotiations had been suspended until the meeting of the League Council.

3. Dr. Ritter's remark that Germany in any case had done something to set matters in motion is, as Mr. Thelwall points out, significant. It appears to reveal not only one of the main reasons for Germany's apparently hasty action, but also a willingness for a renewed discussion about economic arrangements in Europe.

4. I am sending a copy of this despatch, together with the enclosures, to His Majesty's representatives at Vienna and Prague.

I have, &c.

HORACE RUMBOLD

ENCLOSURE IN No. 28

Ministerialdirektor Dr. Ritter, the head of the Economic Department of the Ministry for Foreign Affairs, who had just returned from visiting the Chancellor at Badenweiler, received me by appointment on the 16th April. I said that I thought it would be of interest to His Majesty's Government and would help to clear the situation in general if he could tell me exactly what the present position with regard to the Austro-German Customs Union was, as naturally a great deal of discussion was going on and many rumours were in circulation.

I asked whether Czechoslovakia had been approached during the past week or two and had shown any inclination to join the customs union, at any rate if certain other countries, such as Italy, Hungary, Switzerland, came in. Dr. Ritter said with some emphasis that since the general invitation which was extended at the time that the German protocol was published the German Government had not approached any country whatsoever with suggestions to join the Austro-German or any other customs union, or to form one with Germany. Neither had the German Government received a favourable response to its original proposal from another country.

I had mentioned Switzerland, and Dr. Ritter said that the Swiss official in charge of foreign commercial relations, Herr Stucki, had told him some time ago that under no circumstances would Switzerland ever join a customs union, even if her neighbours did, because absolute independence and neutrality were essential to Switzerland's existence.

Dr. Ritter said that my first question reminded him of M. Benes's visit to Berlin in 1928, when he spent several days here and discussed a great many questions with Herr von Schubert, as Herr Stresemann was ill at the time. Dr. Ritter then produced the minutes of these conversations and read out passages to show that Herr von Schubert had suggested to M. Benes at that time that a customs union between Czechoslovakia, Austria and Germany would offer certain advantages to the three countries. M. Benes had, however, refused and had said that Germany was much too powerful a country for Czechoslovakia to make a customs union with, that such an arrangement could only be come to between States of approximately equal size and importance, and that his idea was to create a customs union between his own country and Yugoslavia, Roumania, Hungary, Austria and Greece, but that he would not take in Poland, while in his view Germany would be better

advised to approach France. Had M. Benes's answer been different the Germans would, so Dr. Ritter said, have been quite prepared to enter upon discussions in 1928 for a tripartite customs union.

In reply to a question Dr. Ritter said that not only was Germany not discussing a customs union with any other country, but that even the conversations with Austria on the subject were in abeyance. The reason for this was that, after Germany and Austria had declared that, although they had no objection to the customs union being referred to the Council of the League of Nations, they would, nevertheless, continue to negotiate pending the meeting of the Council, Dr. Schüller, the Austrian official in charge of economic matters and commercial treaty negotiations, had rung up the Ministry for Foreign Affairs at Berlin to say that, as the Austrian Government had been accused of breaking its obligations, it was considered advisable in spite of the conviction of the Austrian and German Governments that no such breach had been perpetrated, not to lay themselves open to the charge that they had ignored the warning which had been given, however unwarranted they might consider it.

The German Government appreciated the force of these arguments, and accordingly the two countries were not now talking about the customs union, but the Ministries concerned were busy working out the details.

I took this opportunity to say that this task must prove one of considerable difficulty, partly because there must be a number of industries in Austria which would fear German competition, and partly on account of the existence of State monopolies in each country. Dr. Ritter replied that he had no apprehensions with regard to industry, as he felt confident that the Germans could be managed and that he could persuade the branches concerned not to make themselves objectionable in Austria. My view is that no doubt Dr. Ritter is correct in his assumption, but that, as far as the practical results are concerned, they will be the same except that, in the one case, the process of absorption and domination would be painful and lead to friction, while, in the second, it would be smooth and gradual. Dr. Ritter, however, admitted that the monopolies and indirect taxation were giving much trouble, and that he was only gradually beginning to realise the serious difficulties which would have to be overcome before a union acceptable to both parties could be arrived at. One of the chief stumbling-blocks was the turnover tax.

With regard to intermediate duties, I suggested to Dr. Ritter that, if these formed part of the Austro-German agreement, those countries which had most-favoured-nation treaties with Germany or Austria would probably put forward the plea that the customs union was not a true one. Dr. Ritter replied that this was a question of degree. If 95 per cent. of the trade between the two countries was absolutely duty-free and a few automatically decreasing duties were imposed on the remaining 5 per cent., he did not think that according to international practice any valid objection could be made. He quoted as a precedent the customs union before the war between Austria and Hungary, which had never been questioned, but which was accompanied by a few duties.

Finally, Dr. Ritter said that he wished he could do something to convince me of the singleness of the German intentions, and perhaps the best way would be to sketch again the history of the case. To begin with, he wished to emphasise that a customs union had invariably formed the topic of conversation during the last ten years whenever an official visit had been paid by German statesmen to Vienna or by their Austrian colleagues to Berlin. Herr Stresemann had, however, always insisted that the customs union must be put back until more important matters were settled, more particularly until the evacuation of the occupied territories was complete. When Dr. Curtius visited Vienna this year the customs union was, as usual, brought up, and as there was now no major question which took precedence, and as, moreover, he (Dr. Ritter) was completely disgusted with the abortive conversations at Geneva concerning tariff reduction and the removal of trade barriers, the moment was considered ripe to do something more than to talk academically about the customs union. Accordingly, Dr. Ritter and Dr. Gaus, the German legal adviser to the Ministry for Foreign Affairs, got together with their Austrian colleagues and the now famous protocol was the result. Dr. Ritter said they were perfectly well aware what the effects of a customs union were likely to be on their neighbours, and they were also quite clear what objections would be raised on legal grounds. As regards the first, he wished to say that the customs union was intended primarily to benefit Austria and Germany, just as the object of any other commercial treaty is to confer advantages upon the parties to it, but this has never been regarded as a reason for objection by third parties. In regard to the second point, it was just because the Austrians and Germans knew that the Treaty of Trianon¹ and the protocol of 1922 would be cited against them that great pains were taken to frame the customs union proposal in such a way that it did not infringe the undertakings given by Austria. While the Germans and Austrians were not offering any objection to the points at issue being submitted to the Council of the League and, if desired by the latter, to the International Court at The Hague, Dr. Ritter stated that the Germans did not consider that this was at all the kind of subject to deal with for which the court had been constituted. The function of the court was to deal with extremely difficult legal questions which presented insurmountable difficulties even to a trained official mind. In the present instance, however, the issue was so clear that it could be grasped by the man in the street. In this connexion Dr. Ritter added that, while the French reiterated the accusation of a violation of treaties and agreements, they had not adduced a single argument in support of their protestations.

It was further agreed during Dr. Curtius's visit to Vienna that nothing must be done to upset the susceptibilities of other countries, and Dr. Ritter impressed upon me the infinite care which had been taken to make the announcement in such a way that no exception could be taken to the procedure employed. The actual words used in Vienna were: 'Whatever happens, there must be no bombshell.' He is now rather inclined to agree with Dr. Schober, who said that they were so anxious to avoid offence that they

¹ This passage should read 'Treaty of Saint-Germain'.

achieved the opposite result. Having agreed upon the protocol, the dates were fixed upon which it should be submitted to the Austrian and German Cabinets and when it should be communicated to other countries. Both parties were of the opinion that it must be made known before the meeting in Paris of the pan-Europa organisation committee, which was at that time fixed for a date in April. An elaborate plan was also worked out that the protocol should be communicated in certain capitals by the Austrian and in others by the German representative. Just when Dr. Curtius with his officials returned from Vienna a new date for the meeting of the pan-Europa organisation committee in Paris in March was fixed, and the first thing Dr. Ritter had to do on leaving the train was to telephone to Vienna to point out that their time-table had been upset. It was then arranged that the Austrian Cabinet should meet on Tuesday or Wednesday, the 24th or 25th March, the German Cabinet on the 25th or 26th March and that the communication to other Governments should be made on the 28th. Dr. Ritter thinks that all would have been well if there had not been some leakage which caused M. Berthelot to instruct the French representative at Vienna to make representations on the 27th. Dr. Ritter's view is that M. Briand had little or nothing to do with this, and that it was M. Berthelot who acted precipitately and on his own initiative. The point Dr. Ritter wanted to make, however, was that he did not see how the matter could have been handled more rapidly or more correctly by the Austrians and Germans. When Dr. Curtius's party returned to Berlin, nobody knew what had been done at Vienna except a couple of Ministers on each side and about as many officials (I think Dr. Ritter said that the Germans concerned were the Chancellor, Dr. Curtius, Herr von Bülow, Dr. Gaus and he himself). Obviously foreign Governments could not be informed until the German and Austrian Cabinets had approved, and only one or at the most two days were allowed to elapse between the relevant Cabinet meetings and the communication to the rest of the world.

There were one or two remarks made by Dr. Ritter in the course of conversation to which I think I should draw attention. One was that Dr. Ritter admitted that if the customs union was confined to Austria and Germany it would in the first instance at any rate represent an increase of protection rather than the opposite, but that, if other countries could be induced to join it, the effect would be to bring down duties gradually, as the larger the united area the less vulnerable it would be. Secondly, Dr. Ritter said that if the opponents of the Austro-German Customs Union exercised very strong pressure, such as a threat of sanctions by France, the scheme would be dropped.

On leaving I said that I presumed that now there was nothing to be done except to wait for the meeting of the Council of the League of Nations, which ought to prove very interesting. Dr. Ritter agreed that this would no doubt be so, and that in any case Germany had done something to set matters in motion as far as commercial relations in Europe were concerned. This last remark is significant, because it confirms the suggestions made by other quarters that the Germans are perhaps more anxious to get something

practical done with regard to economic co-operation than to force through the present scheme.

J. W. F. THELWALL,
Commercial Counsellor.

No. 29

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 37 Telegraphic [C 2922/673/3]

FOREIGN OFFICE, May 1, 1931

I received the German Ambassador on his return from Germany this afternoon. Our conversation proceeded to range over the position created by the announcement of the Austro-German customs proposal. His Excellency made no definite statement as to the position, but said that his Government were quite willing to have a full discussion on the economic aspect of the case at the meeting of the Committee of Enquiry on European Union on May 15 at Geneva. I took the opportunity of making the following points:—

1. Germany must not assume that we are satisfied that there is no objection to the proposed union on the legal side.
2. That in any case, if the proposed customs union involved a preliminary régime of intermediate duties, His Majesty's Government would be compelled to claim the advantage of the preferential treatment afforded under our most-favoured-nation agreements with both countries.
3. That, apart from the legal issue, we fear its political implications, and unless an agreed solution can be found, the Disarmament Conference, and, indeed, the whole future of European co-operation, may be compromised.
4. That the proposal and the reaction it had provoked had caused a serious set-back to the restoration of financial confidence, and made more difficult the policy of international credit co-operation for which we have been working.
5. That we fully accepted Germany's assurances that her motives and purposes are not political but economic.
6. That we sympathise with her economic preoccupations and would gladly help her to secure her economic objective by any alternative plan.
7. That we would be glad to know if she intends to put forward any alternative proposals.

You are authorised to speak in the above sense if you think it desirable.

Meanwhile it occurs to me that, since the German Ambassador is evidently not in a position to enlighten me as to the German Government's intentions, it would be of considerable interest if you could elicit through the channel indicated in your despatch No. 292,¹ or otherwise, the attitude which the German Government are likely to adopt both at the League Council and with the Commission on European Union.

¹ No. 28.

Mr. A. Henderson to Sir E. Phipps (Vienna)

No. 15 Telegraphic [C 2967/673/3]

FOREIGN OFFICE, *May 4, 1931*

Austro-German Customs Union.

Sir R. Vansittart spoke to-day to Austrian Minister on the lines of my recent conversation with German Ambassador (see Foreign Office telegram to Berlin No. 37¹ of May 1).

The Minister pressed for more explicit information as to our views on legal aspect of union, but Sir R. Vansittart refused to go beyond statement contained in point 1 of my above-mentioned telegram. Minister, although given repeated openings, was for his part equally reticent on point 6. All he did was to point to danger of a blank negative, which would entail the fall of both Brüning and Schober Governments, with gloomy consequences.

In conclusion he was anxious to know substance of French counter-proposals, but was informed that nothing had been received in writing. These proposals, he maintained, ought to be communicated to German and Austrian Governments as soon as possible and in advance of the meeting of 15th May. Otherwise these Governments might think that *they* had been unfairly charged with secretiveness.

¹ No. 29.

No. 31

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 1058 [C 2966/673/3]

My Lord,

FOREIGN OFFICE, *May 4, 1931*

With reference to my despatch No. 980¹ of the 27th April, I have to inform you that the French Ambassador called on the Permanent Under-Secretary of State to-day in order to put forward the proposals of his Government for dealing with the questions raised by the Austro-German Customs Union.

2. For some reason, which M. de Fleuriau did not explain, he was only authorised to read those proposals, which were lengthy. He left, however, the annexed summary of them, but he begged that it should be considered as a verbal communication in order that he might remain within his instructions.

3. This summary does not contain the preface which he read. It was briefly to this effect: The French Government were determined to oppose an Austro-German customs union by all the legal means within their power. They considered that the inspiration of the proposals was political, that it came from the Germans, that it was the preface to the 'Anschluss', and that it was calculated to disturb European peace and was in conflict with the protocol of 1922. The French Government hoped the Council would condemn

¹ Not printed. This despatch summarised M. de Fleuriau's account of the French proposals.

the scheme. They would not object to a reference to the Permanent Court on the juridical aspect of the question. The French Government, however, did not wish to be merely negative and critical, and hence the proposals attached.

4. After reading out the memorandum of his Government, the Ambassador said that he would not ask at this early stage for the comments of His Majesty's Government. Sir Robert Vansittart replied that he could not, of course, in any case, have given such comments, but that he could immediately mention to the Ambassador one point which had struck him while he was listening. The inducements which the French Government contemplated offering to the Austrian Government were sufficiently obvious, but the project would seem to offer very little to Germany.

I am, &c.

ARTHUR HENDERSON

ENCLOSURE IN No. 31

Memorandum communicated by French Ambassador, May 4, 1931

De l'avis du Gouvernement français, le projet d'union douanière austro-allemande est politiquement une préface à l'«Anschluss», proscrire par les traités: il est en contradiction avec les engagements pris par l'Autriche dans le Protocole de 1922.

M. Briand estime qu'à Genève les États intéressés à cette affaire doivent chercher à procurer à l'Autriche et à l'Allemagne le soulagement cherché dans l'union douanière, et qu'à cet effet il conviendrait de proposer un plan susceptible d'apporter une solution aux problèmes économiques les plus urgents de l'Europe.

Quatre problèmes ont attiré l'attention du Gouvernement français:

- (1) Mévente des céréales de l'Europe centrale et orientale.
- (2) Crise des pays industriels.
- (3) Manque de capitaux et de crédits dans l'Europe centrale et orientale.
- (4) Situation particulière de l'Autriche.

Les solutions suivantes paraissent devoir atténuer les maux énumérés sous ces quatre titres.

1. *Question des céréales de l'Europe centrale et orientale.*—Après étude et surtout après la révélation au Congrès de Vienne de la proportion minime du surplus exportable en céréales des récoltes européennes par rapport à celui des récoltes d'outremer, le Gouvernement français s'est rallié au système d'un régime préférentiel en faveur des céréales des pays européens exportateurs. Mais il ne se prononce pas pour l'instant sur la question de l'octroi en échange de ce régime de préférence de contre-parties en faveur des États importateurs de céréales. Il estime toutefois que, si ces contre-parties sont jugées nécessaires, elles ne devraient pas revêtir la forme de tarifs préférentiels et que les avantages consentis par les États agraires devraient être étendus à tous les États jouissant vis-à-vis de eux de la clause de la nation la plus favorisée.

Des précautions seraient prises afin d'empêcher que les avantages consentis aux pays agraires ne provoquent pas une augmentation de la production de

ces pays. Il semble que ces précautions et d'autres destinées à empêcher l'introduction de troubles dans les marchés des États importateurs seraient facilitées par la constitution d'un consortium des pays vendeurs, lequel consortium serait autorisé à traiter avec les pays acheteurs. Les pays acheteurs se concerteraient de leur côté pour étudier les mêmes questions de leur point de vue de manière à permettre, l'entente une fois établie, à leurs représentants de discuter et de conclure avec les représentants du consortium des États vendeurs.

2. *Crise industrielle*.—Le Gouvernement français constate l'échec des tentatives faites pour atténuer la crise industrielle au moyen de formules s'appliquant à l'ensemble de la production ou du commerce et qu'au contraire les marchés ont été régularisés par des accords s'appliquant à des catégories bien déterminées de produits. Il préconise donc le développement des ententes industrielles spécialisées et aussi des ententes agricoles du même genre. Au moyen de ces procédés, c'est-à-dire d'ententes entre les producteurs, on pourrait abaisser les tarifs douaniers dans les limites des contingents d'importation prévus : et ces combinaisons en s'étendant arriveraient à diminuer les tarifs douaniers.

3. *Questions de capitaux et de crédit*.—La France a déjà proposé et espère voir réaliser une organisation de crédit agricole dont l'Autriche pourrait profiter comme les pays agraires. Elle serait disposée à prêter son aide financière à cette organisation comme au financement des récoltes et à l'émission d'emprunts d'États, qu'elle verrait volontiers préparer et contrôler par les organes de la Société des Nations. A ces emprunts elle désire, toutefois, voir donner un caractère international. Elle est disposée à modifier sa législation fiscale afin de faciliter ces opérations. Pour des opérations financières autres que les émissions d'emprunt, par exemple le financement de la production, un groupe de banques françaises a été constitué sous l'égide de la Banque de France et des conversations ont été entamées entre Londres et Paris.

4. *Problème autrichien*.—On ne peut rétablir le régime prévu par l'article 222¹ au sujet d'avantages à consentir à l'Autriche par les États successeurs de l'Autriche-Hongrie. Mais on peut inviter les principaux clients de l'Autriche à lui accorder, par accord à conclure sous les auspices de la Société des Nations, un régime préférentiel pour certains produits autrichiens dans les limites de contingents fixés. En échange de ces privilèges, l'Autriche pourrait offrir soit le maintien du *statu quo*, soit des avantages commerciaux nouveaux dont profiteraient les États possédant en Autriche la clause de la nation la plus favorisée.

Les propositions qui précèdent comportent donc deux systèmes de préférence : l'une en faveur des céréales des États agraires européens, l'autre en faveur de l'Autriche. Les dérogations à la clause de la nation la plus favorisée sont acceptées par la France parce qu'il s'agit de faire face à une situation exceptionnelle et à des difficultés d'un caractère temporaire. En ce qui concerne les céréales, les prix peuvent être modifiés à l'avantage des vendeurs et le régime de tarif préférentiel devrait être assez souple pour s'adapter aux

¹ i.e. article 222 of the Treaty of Saint-Germain.

conditions du marché et pour disparaître le moment venu. Quant à l'Autriche, on peut espérer que ses relations avec ses voisins se rétabliront de manière à lui permettre de se passer, un jour, de l'aide qui lui serait accordée. Ceci explique pourquoi le Gouvernement français est prêt à consentir des exceptions au régime de la nation la plus favorisée, auquel régime il reste fermement attaché.

No. 32

Mr. A. Henderson to Sir R. Graham (Rome)

No. 527 [C 2877/673/3]

Sir,

FOREIGN OFFICE, May 4, 1931

With reference to my telegram No. 121¹ of the 2nd May, I transmit to your Excellency herewith a translation of the *note verbale*, left with a member of this Department by the Italian Ambassador, to which reference is made in that telegram.

2. The Italian Ambassador explained that he was only instructed to make a verbal communication, but that for the sake of convenience he had put it into writing. His Excellency stated that his Government were most anxious to co-operate with His Majesty's Government in this matter. He was informed that this was certainly our wish, and that you had in fact been instructed so to tell Signor Grandi.

3. It was made clear to his Excellency that in principle we had no objection to the customs union as such, nor from a purely economic point of view would we object to one between Germany and Austria, but we realised that in the present circumstances the political considerations involved dominated the whole problem. We did not wish, however, to find ourselves in the position of having to impose a direct veto either by means of a Hague decision or otherwise. On the contrary, we hoped that a solution would be found by means of some alternative scheme which would equally meet the economic objects at which the Austro-German Union was supposed to aim.

I am, &c.

ARTHUR HENDERSON

¹ Not printed.

ENCLOSURE IN No. 32

Memorandum

(Translation)

ITALIAN EMBASSY, LONDON, April 29, 1931

The Italian Government, being convinced that it is expedient to act calmly and with an absence of precipitation in face of the projected Austro-German customs agreement, have welcomed the British step of bringing the question before the Council of the League of Nations.

The legal aspect of the question is not the only one which has to be examined. The obligations assumed some time ago by Austria must be faithfully respected. There are, however, other aspects of the question, political, economic and financial, which it is impossible to leave out of consideration. If one were

to lose sight of them at the present juncture, they would force themselves to the foreground later on, and it is important to give them consideration while it can usefully be done for all concerned.

Politically it is evident that if the union which is planned were achieved in the manner and with the objects towards which certain tendencies of German public opinion are aiming, it would not lead to greater equilibrium in Europe, but to a concentration of forces by which the existing situation would be seriously prejudiced. Italy has a particular interest that this should not happen.

From the economic point of view, and inasmuch as the protocol signed by the two States declares that third countries may also accede to the union, it is clear that, as it is conceived, the projected union is not planned in a 'European' spirit in the general interests, but in the restricted interests of Austria and Germany, and more in those of Berlin than of Vienna.

From the financial side the problem arises whether the proposed changes in the Austrian customs régime are not capable of prejudicing the financial situation of Austria and more particularly the condition of the subscribers to the international loan of 1922. This is a sphere which comes more specially within the competence of the Austrian Control Committee, which might usefully be consulted.

Great Britain and Italy, according to the system created at Locarno, which made them guaranteeing Powers and entrusted to them the work of collaboration in the interests of peace, have the task, in agreement of course with all the other States, of stemming the forces which the intended union would tend to place in movement and of directing them towards an ultimate aim of reconstruction and peace. The Italian Government are therefore desirous in this, as on other occasions of co-operating with the British Government, and it would give them much pleasure, if, prior to the Geneva meeting, there could take place an exchange of views between the two Governments with the object of considering in particular what action should be taken.

Meanwhile, the Italian Government would be especially glad to learn whether the British Government would be disposed to examine the appropriateness of suggesting that the financial aspect of the matter should be made the subject of examination as well as the legal and economic points of view. They are of opinion that this examination should be begun as soon as possible, the Committee of Control for Austria being convoked for the purpose.

No. 33

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received May 7)

No. 39 Telegraphic [C 3099/673/3]

BERLIN, May 6, 1931

Your telegram No. 37.¹

Following is summary of a long interview which I had with Secretary of State to-day a full record² of which goes by bag on Friday.

¹ No. 29.

² No. 34.

I referred to your interview with German Ambassador on May 2 and went through points you had made at the time.

As regards point 1 Secretary of State said that whilst Germany was satisfied that there could be no objection to proposed customs union from juridical point of view she did not claim to know British view on that point.

Point 2. Proposed customs union was *sui generis* in that it treated Austria on a footing of absolute equality. He did not expect intermediate duties to apply to more than 14 items and they would be on German exports to Austria. There would be no intermediate duties on Austrian exports to Germans. If however intermediate duties proved a stumbling block to conclusion of union the difficulty could be got over by means of cartels.

Point 3. Secretary of State pointed out that as no objection had been made when Roumania and Jugoslavia announced their intention of concluding a customs union last year he did not see why there should be such a strong objection to Austro-German customs union. I said the cases were not parallel inasmuch as proposed customs union between Austria and Germany was a union between two nations of the same race who would form a formidable bloc in the centre of Europe.

Point 4. As France had steadily refused to give Germany long-term credits Secretary of State did not see that proposed Austro-German customs union had really prejudicially affected the restoration of financial confidence.

Secretary of State took note of point 5 and we then took points 6 and 7 together. Secretary of State said quite definitely that Germany had no alternative plan and did not intend to put forward any other proposals. German delegates would explain genesis of and reasons for proposed customs union with Austria at meeting of Commission on European Union. They would expect discussion to be conducted from the point of view of legality of proposed union. If League Council found it necessary to refer the matter to the Permanent Court and latter gave a decision in favour of contention that Union did not violate Austrian engagements, Germans would proceed with union. If however Permanent Court found legal objections to proposed union, Germany would expect the Court to state the nature of those objections. They could then be remedied. German delegation would exhaustively examine any plan presented by the French, for Secretary of State did not consider the projected Austro-German customs union need necessarily conflict with other plans. German plan might even be found to be susceptible of incorporation in some other plan of a wider nature. German thesis was that European Union could best be achieved by starting from a kernel composed of two or three States which might gradually attract others to themselves. This could be realized quickly. French plan was to rope in the 27 European States at one go and this would be a very lengthy process.

Secretary of State added that there had quite recently been conversations between German Embassy in Paris and French Foreign Office with a view to seeing how anticipated strain at Geneva could be eased. These conversations had led to nothing, French having suggested that cartel system might

be applied in the first instance to leading industries in Europe and then extended to other industries. Any such process even if feasible would take ages.

No. 34

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received May 15)

No. 337 [C 3338/673/3]

Sir,

BERLIN, May 6, 1931

On receipt of your telegram No. 37¹ of the 2nd instant regarding the projected Austro-German Customs Union, I requested the commercial counsellor to see Dr. Ritter, the head of the Commercial Section of the German Foreign Office, in order to endeavour to ascertain from him whether the German Government intended to put forward any alternative plan at Geneva. As I, anyhow, had an appointment with Herr von Bülow, the Secretary of State, to-day, I thought it would be of advantage to see what reaction, if any, Mr. Thelwall's conversation with Dr. Ritter would have on my subsequent conversation with Herr von Bülow.

2. I now have the honour to enclose a memorandum of Mr. Thelwall's conversation with Dr. Ritter. My conversation with Herr von Bülow, a summary of which was contained in my telegram No. 39² of to-day's date, followed much the same lines, and, in view of my above-mentioned telegram, I need only report the considerations developed by Herr von Bülow in connexion with some of the points which you had made in conversation with the German Ambassador on the 2nd instant.³ In the course of this conversation Herr von Bülow made some interesting statements.

3. The Secretary of State observed that the intermediate duties would, he thought, only affect some fourteen items of the total German exports to Austria. These duties would be for varying periods, but if it were found that the existence of these few intermediate duties led to difficulties with other Powers in the sense of a claim to most-favoured-nation treatment, for instance, the Austrian and German Governments could achieve their object by other methods, such as the formation of cartels covering the industries which would be affected by the proposed intermediate duties. The proposed duties could then be dropped; in fact, the German Government had various methods for effecting a true customs union. This customs union would be *sui generis* inasmuch as Austria, a small Power, would be treated on a footing of absolute equality, whereas in the case of Belgium and Luxemburg the former country had practically absorbed the latter from an economic point of view. There would be no intermediate duties on Austrian exports to Germany.

4. Herr von Bülow went on to say that, even when he was a subordinate official at the German Foreign Office, he had had some such customs union in mind. On entering on office as Secretary of State he had turned over in his

¹ No. 29. This telegram was dated May 1.

² No. 33.

³ This date should read 'the 1st instant.'

mind the various questions of foreign policy which were of urgent interest to Germany, such as reparations, the eastern frontier and closer economic relations with Austria, and had come to the conclusion that a customs union with Austria would be the step least likely to provoke opposition on the part of other Powers. Although I did not say so to him at the time, this statement seems to me to be an admission that the German Government were, for internal reasons, seeking for some success in foreign policy, and later on in the conversation Herr von Bülow almost admitted as much. He informed me that a comparatively short time ago his officials had come to him with their scheme for a customs union with Austria and had asked him whether there might be objections to it from a political point of view. As he did not foresee any such objections, he had authorised them to proceed with the scheme. No sooner, however, had the protocol announcing the intention of the two Governments to negotiate a customs union been communicated to foreign Powers than there was an outcry on the part of the French. He could tell me, for my personal and confidential information, that a former member of the German Embassy in Paris, who had just left his post and who had made himself popular in French official circles, had had the opportunity of meeting a number of prominent Frenchmen in the course of a series of farewell dinners given him before his departure. This diplomatist had derived the impression from conversations with these French politicians and others that French hostility to the proposed Austro-German Customs Union was based on two main reasons, *i.e.* resentment that Germany, a country which had been defeated in the war, should aspire to take the lead in attempting to bring about a better economic organisation of Europe, and, secondly, the fear of the increase in German man-power which such a customs union was, in French eyes, bound eventually to bring about.

5. With regard to the opinion expressed that the proposed Austro-German customs scheme had caused a serious set-back in the restoration of financial confidence, Herr von Bülow said that French and Germans had had unofficial conversations over quite a long period with a view to bringing about a better understanding between the two countries. These conversations had led to no practical result, inasmuch as no long-term credits had been forthcoming from France. In this respect, therefore, he did not see that the proposed Austro-German Customs Union had altered the situation. At this point he observed that it would be a great mistake to suppose that the Austrians and Germans had devised their scheme for bargaining purposes. They had done nothing of the sort. The fact was that time pressed. German economy was passing through a severe crisis. It could not afford to wait whilst the French discussed European union at leisure. Germany had no reserves on which to draw. Something had to be done, and he thought it was more expeditious and practical to start the process of economic reorganisation from a nucleus of two or three Powers than to attempt to rope in the twenty-seven European States all at once.

6. The Germans, he said, would have no objection whatever if the Czechs, Poles and Roumanians made a customs union between themselves, for it

would be easier for larger entities to come to terms in customs matters than to conclude commercial agreements between numerous individual States.

7. Turning to the political side of the question, Herr von Bülow affirmed that there had never been any question of the 'Anschluss' when the proposed customs union was first mooted or during the negotiations leading up to the protocol. In present circumstances, and for many years to come, a political 'Anschluss' was a practical impossibility for constitutional reasons. The Reich was engaged in considering and determining its relations to the Federal States, and he understood that the same process was going on in Austria. How could Germany and Austria effect a political union whilst this question, which would take years to determine, remained unsettled?

8. I then asked Herr von Bülow whether the Germans had any alternative plan to put forward at Geneva if the projected Austro-German Customs Union met with determined opposition. He replied in the negative. What other plan could they have? At the meeting of the Committee on European Union they would explain the genesis of and the reasons for their plan. If the League Council found it necessary to refer the legality of Austria's action to the Hague Court and the latter decided that the proposed customs union did not violate Austria's engagements, the German and Austrian Governments would proceed with their plan. If, on the other hand, The Hague Court indicated that there were legal objections to the course proposed by Austria and Germany, the German Government would insist on knowing what those objections were in order to be able to meet them. He could not see that the Austro-German plan need necessarily be incompatible with any other plan. He understood that the French had proposed various plans to different countries. According to his information, the French had suggested, for instance, that the countries bordering on Austria should give the latter preferential treatment for some of her exports. As France was not a limitrophe country, this was generosity at the expense of others. Some other plan, he understood, had been submitted to Hungary. He thought it would be quite possible to dovetail the Austro-German plan into a plan of a wider scope.

9. Herr von Bülow stated finally that the Germans had realised that the forthcoming meeting at Geneva might be a difficult one, and they had, therefore, as he put it, sounded the French Foreign Office through the German Embassy at Paris as to the possibility of providing 'cushions' for one another to sit upon at Geneva, but these soundings had led to no result. M. Poncet had proposed to the German Embassy a scheme under which important industries in various countries might be included in cartels. Similar cartels might then be formed to include lesser industries. This was all very well, but such a proposal, even if feasible, would take a great deal of time, and time was of the essence of the matter. The Secretary of State repeated that the Germans would bring forward their plan at Geneva, but would also attentively study any plan submitted by the French.

10. Two facts emerge from the foregoing, namely, that Herr von Bülow appears to be himself partly responsible for the inception of the proposed Austro-German Customs Union, and that the German Government, on

their side, were influenced by considerations of internal policy as well as by the pressure of economic conditions to entering into negotiations with Austria. It is useless to conceal the fact that the economic situation in Germany to-day is definitely serious. This is not my view alone; it is shared by those of my principal colleagues with whom I have recently exchanged views, notably the United States and Italian Ambassadors. The German Government became impatient at what they describe as the dilatory discussions at Geneva of the scheme for European union. They had heard 'great argument about it and about' [*sic*], but nothing had emerged which afforded a prospect of relief for their immediate necessities and those of Austria. They therefore decided to take action.

11. I am sending a copy of this despatch to His Majesty's Minister at Vienna.

I have, &c.

HORACE RUMBOLD

ENCLOSURE IN NO. 34

Memorandum

I had a conversation to-day with Herr Ritter respecting the contents of Foreign Office telegram No. 37.

I gave him the gist of the points enumerated by Mr. Henderson. He did not make any particular comment on point 1; with regard to point 2, he said that, if we brought forward a claim for most-favoured-nation treatment, it could only be because we considered that the arrangement between Austria and Germany was not a customs union at all, and that therefore we were entitled to all the benefits which the two countries granted each other under it. The matter would be one which would have to be referred to arbitration under the provisions of the Anglo-German Commercial Treaty. Herr Ritter did not recollect that Herr von Neurath had mentioned this subject in his report of the conversation. Herr Ritter added that the Germans had collected a long list of precedents which proved that a small number of temporary intermediate duties did not constitute a violation of the principle of a customs union.

Point 3, Herr Ritter thought, was one which required at least as much emphasising in Paris as in Berlin.

With regard to point 4, Herr Ritter remarked that, as nobody had been giving Germany credits for the best part of two years, he did not see that the German customs union proposal could make the situation any worse than it was. He was not much impressed by my remark that we were promoting a movement which aimed at bringing capital into circulation again, but that no progress could be made as long as uncertainty existed in regard to the ultimate fate of the customs union, nor possibly afterwards, if an unfriendly atmosphere were created.

In regard to point 5, Herr Ritter reiterated what he had told me on a previous occasion, and said that in all the conversations between Curtius and Schober concerning the customs union the word 'Anschluss' had never been uttered, nor even the hope expressed that the economic union might be fol-

lowed by a political one. Looking back, he was himself surprised that such an obvious opportunity to refer to the 'Anschluss', at least in general terms, had not been seized.

I brought up points 6 and 7 together. Herr Ritter's attitude was at first quite firm and uncompromising. He said that the Austro-German proposal was one which did not admit of any modification or alternative. Either a customs union was permissible under existing treaties and engagements or it was not. If the Hague Court decided that it was, Germany must go forward with her plan and could not submit to worse treatment than Roumania and Yugoslavia when they announced their intention of concluding a customs union last year. Nobody had then spoken about a menace to disarmament and to European peace. I told Herr Ritter that this attitude was all very well from a purely legal standpoint, but that in practice there would be a violent and prolonged battle and much wrangling, in the course of which Britain would probably find herself called upon, as so often in the past, to mediate and to endeavour to find a middle path which would be acceptable to everybody and which would, above all, prevent the creation of a situation which might be legally correct, but full of bitterness for the future. Herr Ritter replied that he could not think of any better rôle for Mr. Henderson as mediator in this conflict than a continuance of his advocacy of the appeal to the Hague Court. I replied that a longer view must be taken, and that it would be much better if some plan could be devised to satisfy everybody without the need of going to The Hague at all, and that Mr. Henderson was only asking the Germans to help him with the suggestions for such a plan in order that he might help them. Moreover, even if use had to be made of the Hague Court and the Germans won, a situation would be created which might make it seem advisable for them not to insist on their pound of flesh, but to agree to some form of compromise. My arguments induced a more conciliatory frame of mind in Herr Ritter, at any rate as far as we are concerned, and he expressed his gratitude for our desire to help, but repeated that the nature of the Austro-German proposal was such that with the best will in the world he could not think of any adequate alternative. He would, however, turn the matter over in his mind, and if anything occurred to him he would tell Herr von Bülow in anticipation of the latter's conversation with the Ambassador. Incidentally, Herr Ritter added that he had heard from Geneva and elsewhere that it was assumed that the Germans had merely put forward the scheme of a customs union for bargaining purposes. This was an entirely erroneous view. The Germans had conceived the customs union in all seriousness and did not want any substitute.

On the basis of the foregoing, it would seem that the answers to the questions put by the Foreign Office are—

- (a) That the Germans have no alternative plan; that consequently
- (b) They cannot put forward any other proposals; and that
- (c) The attitude of the German Government all through will be one of rigid adherence to the legal aspect of the case, whether the final verdict goes in their favour or not.

F. THELWALL

Lord Tyrrell (Paris) to Mr. A. Henderson (Received May 11)

No. 534 [C 3180/673/5]

Sir,

PARIS, May 7, 1931

In your despatch No. 1058¹ of the 4th May you were so good as to furnish me with an account of a conversation between the French Ambassador and the Permanent Under-Secretary of State on the 4th May regarding the proposals of the French Government for dealing with the questions raised by the projected Austro-German Customs Union. During this interview Sir R. Vansittart mentioned to M. de Fleuriau one point which had struck him: the inducements which the French Government contemplated offering to the Austrian Government were sufficiently obvious, but the project would seem to offer very little to Germany.

2. Opportunity was taken of a conversation to-day with M. Coulondre, Directeur of Commercial Relations at the Ministry of Foreign Affairs, to enquire how the French Government anticipated that their proposals would be received in Germany. M. Coulondre replied that the French representatives at Berlin and Vienna had already informed the Governments to which they were accredited of the substance of the French proposals, but that the information which they had given was not as complete as that which had been furnished to His Majesty's Government. M. Coulondre read out a telegram received from the French Ambassador at Berlin summarising the highly critical views expressed in the German press, and stated that he anticipated that the German Government would oppose the French scheme as far as they could.

3. In reply to a remark that the advantages which Germany would derive from the French scheme were not easily apparent, M. Coulondre stated that these advantages were: (1) The French Government would be prepared to assist Germany in obtaining greater facilities as regards international finance. (2) Hitherto the French Government had not actively encouraged the conclusion of agreements between French and German industrial cartels. They would be willing to promote such agreements and to offer facilities for their successful operation. (3) If Germany were to co-operate in making the French scheme practicable, she would, in return for importing grain from Eastern European countries, receive facilities for exporting her manufactured goods to those countries. (4) A tendency to participate in the European industrial cartel agreements was beginning to appear in the United Kingdom; on the other hand, a tendency towards the gradual adoption of a system of protection was also discernible. If the United Kingdom and Germany co-operated in the French scheme, the latter might eventually receive guarantees as regards the stabilisation of import duties in the United Kingdom over a period of years. In this connexion M. Coulondre referred to the proceedings of the conferences on concerted economic action.

4. In reply to a remark that the bait which was being dangled before the

¹ No. 31.

German Government as regards assistance in the field of international finance seemed of a rather nebulous nature, M. Coulondre said that the French Government did not intend to make any definite or precise promises in this connexion until they learnt whether the German Government would, in principle, fall in with their scheme. They would not assist the grant of French loans to a Germany which was pursuing a policy economically hostile to France and contrary to the interests of European co-operation.

5. The French Government sincerely trusted that the German Government would realise that in the event of their proceeding with the proposals for a customs union with Austria, they would be faced with economic alliances or unions between other countries, which would in all probability close those countries to German goods, leading thus to economic warfare and adding to the distress of Europe and, in particular, of Austria and Germany themselves. M. Coulondre added that Germany was a Power of such importance that it was out of the question to bribe her to fall in with the French scheme, and that it was for the German Government either to pursue a policy of general co-operation between the various States of Europe or else to follow one of shortsighted egoism which, whilst perhaps satisfying certain political aspirations, would only accentuate the present economic distress of the continent, and more especially of Germany herself.

I have, &c.

TYRRELL

No. 36

*Mr. A. Henderson to Mr. N. Henderson (Belgrade)*¹

No. 173 [C 3174/673/3]

Sir,

FOREIGN OFFICE, May 11, 1931

I have to inform you that the Yugoslav Minister was requested to call at the Foreign Office on the 8th May in order that a statement might be made to him of the British views on the question of the proposed Austro-German Customs Union.

2. A copy of the memorandum on the lines of which this statement was made is enclosed herein.

3. A similar communication was made to the Czechoslovak Minister and the Roumanian Chargé d'Affaires.

I am, &c.

ARTHUR HENDERSON

ENCLOSURE IN No. 36

Statement of British Views for Communication to the French and Italian Ambassadors and to the Czechoslovakian, Yugoslav and Roumanian Ministers

In principle His Majesty's Government are not opposed to customs unions, provided that there is entire free trade between the members of the union and

¹ Also to His Majesty's representatives at Prague (No. 169) and Bucharest (No. 178) *mutatis mutandis*.

provided that the tariff set up between the union and the outer world is not higher than the tariffs previously existing. In theory anything that tends to enlarge the size of individual tariff units and thereby increases the freedom of international trade is in their view to be welcomed, since it would tend to an increase of the wealth and purchasing power of the larger unit to the benefit of international trade generally.

2. In the case of the proposed Austro-German Customs Union, however, economic theories must make way for the serious political considerations to which this proposal has given rise. It cannot be considered merely as an economic problem, but it must be treated as a juridical and political problem.

3. For this reason His Majesty's Government have placed the legal question, *i.e.*, whether such a proposed union would infringe the protocol of 1922, before the Council of the League, but they hope simultaneously that means will be found at Geneva for examining the possibility of formulating on a broader basis some general economic scheme which might offer to Germany and Austria an adequate alternative for the economic advantages which they hope to obtain by the customs union.

4. For the United Kingdom the main desiderata as regards economic co-operation must necessarily be the general reduction of tariffs and for British goods the unimpaired maintenance of most-favoured-nation treatment.

5. Meanwhile His Majesty's Government have made the following communication to the German and Austrian Governments:—

- (a) Germany and Austria must not assume that we are satisfied that there is no objection to the proposed union on the legal side.
- (b) That in any case if the proposed customs union involved a preliminary régime of intermediate duties, His Majesty's Government would be compelled to claim the advantages of the preferential treatment afforded under most-favoured-nation agreements with both countries.
- (c) That apart from the legal issue we fear its political implications and, unless an agreed solution can be found the Disarmament Conference, and indeed the whole future of European co-operation, may be compromised.
- (d) That the proposal, and the reaction it had provoked, had caused a serious set-back to the restoration of financial confidence and made more difficult the policy of international credit co-operation for which we have been working.
- (e) That we fully accept the assurances of Germany and Austria that their motives and purposes are not political but economic.
- (f) That we sympathise with their economic preoccupations and would gladly help them to secure their economic objectives by any alternative plan.
- (g) That we would be glad to know if they intend to put forward any alternative proposals.

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 1127 [C 3183/673/3]

My Lord,

FOREIGN OFFICE, *May 11, 1931*

I transmit to your Lordship herewith a copy of an aide-mémoire which was handed to the French Ambassador by Sir Robert Vansittart on the 11th May. This document contains a brief summary of the British comments on the various counter-proposals which the French Government have put forward to the projected Austro-German Customs Union.

2. A copy of this despatch has been sent to the British delegation at Geneva.

I am, &c.

ARTHUR HENDERSON

ENCLOSURE IN No. 37

Aide-mémoire

*Preliminary Comments on the French Scheme communicated by the
French Ambassador on May 4, 1931*

As these comments will be in the nature of criticism, it is desired at the outset to make it clear that we do not wish to be obstructive or hostile, but, on the contrary, sincerely hope that these tentative observations may help in the formulation of the French scheme to be put forward at Geneva.

1. Inability of the Countries of Central and Eastern Europe to Dispose of their Cereals

So far as the United Kingdom is concerned, we are, of course, little interested in the duties levied on cereals by European consuming countries, though this is by no means the case as regards other parts of the Empire. It should, however, be mentioned that the United Kingdom are substantial exporters of flour to Europe, and that if any preference were extended to that commodity our interest would at once be aroused.

It is not certain whether the proposed system of agrarian preferences is intended to be permanent or whether it is only to last until prices recover and the present surplus is disposed of. Also when M. Arnal originally outlined the scheme at the Foreign Office, he specified France, Germany, Czechoslovakia, Austria, Italy and Switzerland as being the six countries who were to grant this agrarian preference. Is this still the intention? Is not considerable difficulty foreseen in inducing Germany to agree to this unless a big counter-concession is offered to her? Moreover, how would she be able to reconcile the granting of such a preference with the most-favoured-nation treatment, unlimited in extent and duration, which she gave to Russia in the Treaty of Rapallo?

It was gathered from M. Arnal that the French Government did not anticipate that the non-European grain-exporting countries would raise any difficulties over the preference scheme now proposed. It must be admitted, however, that this is by no means the impression derived by the British repre-

sentative at recent meetings when this question has been discussed. At the Rome Wheat Conference the representative of the Argentine was the first to state that this country would not relax the most-favoured-nation clause in its treaties with Western European countries in order to allow them to give preference to wheat grown in Central Europe; the representatives of Canada and Australia then took the same line. They also pointed out that the chief sufferers in the present crisis were the overseas countries, such as Australia, Canada and the Argentine, which exported about 60 per cent. of their combined harvest, while the Danubian countries only had to export about 16 per cent. of theirs. This seems to show that the extra-European countries would raise the most lively objections to any preference scheme, even though limited in duration and extent.

2. *The Crisis in Industrial Countries*

While we are in no way opposed to the development of the cartel system in appropriate cases, we feel that the effect of this policy on the general situation must be very limited, and that, taken by itself, this policy would be quite inadequate to remedy the existing crisis. Experience shows that cartels often take several years to build up; it is only in a few industries that the system is applicable, and it is difficult or impossible to apply in industries where there are a large number of small concerns or a strong tradition in favour of individualism. The formation of cartels is a matter for the industrialists concerned, and not for Governments, and where their formation has not been found possible or desirable up to the present there is a strong presumption that grave difficulties exist in organising industry in this way. We are, therefore, firmly convinced that cartels, whatever their eventual advantages, cannot in any way be regarded as an adequate alternative to tariff reductions.

3. *Financial Proposals*

We cordially endorse the view that the resumption of foreign lending on the part of those countries which have capital available for lending abroad must be an essential feature in any scheme for economic co-operation. But we must recognise that it is not enough to express an abstract sympathy with this view, and that it is necessary to devise concrete methods for ensuring a regular and adequate flow of credit to the countries which require it. We hope that the examination of the question which is being undertaken by the Bank of International Settlements will lead to practical developments at an early date and on an adequate scale. Admittedly the problem must remain a very difficult one until confidence is sufficiently restored to enable the necessitous Governments to borrow on reasonable terms, and we shall be greatly interested to study any concrete proposals on the matter which the French Government may put forward.

4. *Special Measures for Austria*

If understood aright, the French scheme contemplates that His Majesty's Government should waive their most-favoured-nation right to claim for

British goods the same preferential treatment as it is proposed to grant to certain categories of Austrian goods. Such a concession would run counter to the consistent policy of His Majesty's Government, which has been to resist, as a matter of principle, any impairment of our most-favoured-nation rights. Our view is that, should any exception, even when the direct interests involved are not very considerable, be made in the matter of most-favoured-nation rights, it would obviously open the way to demands for similar exceptions in the future.

Apart from these particular points, our general feeling as regards the proposals put forward by your Government is that:—

- (i) We cordially agree in the general policy of putting forward constructive proposals for economic co-operation as the best means of removing the Austro-German Customs Union from the political arena.
- (ii) It will be essential that the proposals should be acceptable to Germany, lest Dr. Brüning's position at home became untenable and power fell into the hands of more extreme parties. Further, we feel that unless Germany receives some tangible advantage from the proposals, there is a real danger that she will try to conclude the customs union with Austria, and that if she is finally prevented from doing so on legal grounds, she will retaliate by raising the question of the revision of the reparation settlement. It seems to us that your Government's proposals, while making every effort to secure considerable advantages for Austria, do little or nothing to secure the more important end of satisfying Germany.
- (iii) In our view a general reduction of protectionist tariffs is by far the most important contribution which can be made to economic co-operation. It will be for the technical experts to consider how this problem can best be approached afresh in the changed circumstances of the present.

For the United Kingdom the main desiderata as regards economic co-operation must necessarily be a general reduction of tariffs and, for British goods, the unimpaired maintenance of the most-favoured-nation treatment.

Since the French scheme has not yet been formulated in detail, the opinions thus briefly expressed in the foregoing paragraphs should be taken as only preliminary and tentative observations, and in putting them forward it should again be emphasised that, far from being desirous of pouring cold water on any constructive scheme, we are more than anxious to find some helpful solution of the problem on lines which will represent a step forward in the direction of the economic rehabilitation of Europe; and at the same time afford a concrete proof of the ability of European Governments to co-operate in this common task.

FOREIGN OFFICE, *May 9, 1931.*

Mr. Patteson (Geneva) to Sir R. Vansittart (Received May 16)

No. 31 (L. of N.) Telegraphic [C 3396/673/3]

Following from Secretary of State.

GENEVA, May 15, 1931

I had private discussion this afternoon with MM. Briand, Curtius and Grandi on procedure to be followed in dealing with Austro-German question.

It was agreed that proceedings at European Commission tomorrow should begin with general discussion of world economic crisis. M. Briand pressed that no mention should be made of Austro-German proposal during that discussion before the Council had begun consideration of juridical aspect of the matter. Dr. Curtius could not undertake to make no mention of the matter but promised to do so in general terms only and to exercise utmost discretion. M. Briand expressed apprehension that even so a difficult and dangerous discussion might arise but it was generally recognised that it would be very difficult for Dr. Curtius to avoid all mention of the question and M. Briand may persuade others not to take umbrage if it is mentioned. It is expected that this discussion will last all tomorrow as it is agreed that Council will take juridical aspect of question on Monday morning.¹ There was general agreement that matter would have to be referred to the Court and if all the members of Council concur in this course I hope matter may be disposed of on Monday morning.

Discussion on European Commission could then continue if necessary in the afternoon.

¹ May 18.

No. 39

Resolution¹ of the Council of the League of Nations

[C 3656/673/3]

GENEVA, May 18, 1931

The Council of the League of Nations has the honour to request the Permanent Court of International Justice to give an advisory opinion, in accordance with article 14 of the Covenant, on the following question:—

Would a régime established between Germany and Austria on the basis and within the limits of the principles laid down by the protocol of the

¹ Mr. A. Henderson moved this resolution at a meeting of the Council of the League on May 18, 1931. The resolution was supported by Signor Grandi on behalf of Italy and by M. Briand on behalf of France. After some discussion, the resolution was adopted unanimously on May 19. The examination of the case by the Permanent Court of International Justice began on July 20, 1931. The public hearings closed on August 6. On September 3, at a meeting of the Commission for European Union, the Austrian and German representatives announced that their Governments, in view of the economic difficulties which had arisen throughout Europe, had decided not to pursue the plan for an Austro-German Customs Union. On September 5, the Permanent Court gave an opinion (by 8 votes to 7) that the proposed Customs Union was incompatible with Protocol No. 1 signed at Geneva on October 4, 1922. The British judge who took part in the deliberations of the court voted with the minority. Seven out of the eight judges who formed the majority also held that the proposal was incompatible with article 88 of the Treaty of Saint-Germain.

19th March, 1931, the text of which is annexed to the present request, be compatible with article 88 of the Treaty of Saint-Germain and with protocol No. 1 signed at Geneva on the 4th October, 1922?

The Council requests that the Permanent Court will be so good as to treat the present request for an advisory opinion as a matter of urgency.

The Secretary-General is authorised to submit the present request to the court, to give any assistance required in the examination of the question, and, if necessary, to take steps to be represented before the court.

Note. Further references to the proposal for an Austro-German Customs Union are included in the correspondence printed in Chapter II.

CHAPTER II

Visit of Dr. Brüning and Dr. Curtius to London;
President Hoover's proposal for a year's postponement of payments on inter-governmental debts:
Correspondence with the American, French, and German Governments with regard to the German financial crisis and President Hoover's proposals
(April 2-July 7, 1931)

No. 40

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 327 [C 2179/11/18]

FOREIGN OFFICE, *April 2, 1931*

Sir,

With reference to your despatch No. 194¹ of the 18th March last, I have to inform your Excellency that in the course of conversation with the French Minister for Foreign Affairs at the Quai d'Orsay on the 11th March last, I told M. Briand that His Majesty's Government were contemplating the issue of an invitation to Herr Brüning and Dr. Curtius to pay a short visit to London, as both the Prime Minister and I were of opinion that such a visit would be beneficial in its results. We believed that it was to the interest of all concerned to accord to the present Administration in Germany such support as could properly be given, and that the position of the two statesmen would be strengthened if it were realised in Germany that His Majesty's Government were not endeavouring to keep them at arm's length.

2. M. Briand said that he was in agreement with the action proposed, and that he thought that the visit we had in view would be advantageous.

3. The German Ambassador called at the Foreign Office on the 1st April and said that the week-end of the 1st May would be the most convenient date for Dr. Brüning's and Dr. Curtius's visit. Their Excellencies' arrival was therefore fixed for this date. A further despatch will be addressed to you when the arrangements for their entertainment have been made.

I am, &c.

ARTHUR HENDERSON

¹ See Vol. I. of this series, No. 335.

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 26 Telegraphic [C 2253/2018/18]

FOREIGN OFFICE, *April 9, 1931*

Following from Sir R. Vansittart.

Foreign Office despatch No. 336¹ of April 7. Following is subsequent sequence of events:—

German Ambassador told me on April 7 that May 8, owing to its proximity to the Council meeting, was not very suitable to his Ministers, and asked if 1st May was impossible. I ascertained from Prime Minister that it was and so informed the Ambassador. The following day latter told me that his Ministers might be able to manage May 7, but he was induced to ask his Government whether it would not be preferable to fix the visit definitely for June 5 to 9, and to announce this to the press at once. Later in the afternoon he telephoned that his Government agreed, and a communiqué to this effect was accordingly issued.

¹ Not printed. This despatch transmitted the correspondence with regard to the proposed visit of the German Ministers. On April 4 the French Ambassador in London had transmitted to Mr. Henderson a note from M. Briand suggesting that, in view of the proposals for an Austro-German Customs Union, it would be advisable to postpone the meeting of the British and German Ministers until after the session of the Council of the League at which the Austro-German proposals would be discussed.

Mr. A. Henderson to Sir H. Rumbold (Berlin)

No. 32 Telegraphic [C 2695/2018/18]

FOREIGN OFFICE, *April 21, 1931*

Following from Vansittart.

Will you please ascertain what secretaries and other staff the Chancellor and Minister for Foreign Affairs will be bringing with them to Chequers?

Accommodation being restricted, it is desirable that retinue should be as far as possible limited. For the same reason and for the convenience of business, it would perhaps be as well if the Ministers were not accompanied by their wives, but we would not, of course, make this suggestion.

Minister for Foreign Affairs may want to bring some Foreign Office official. To this we would have no objection, but you should discourage any suggestion of bringing experts or officials from other Ministries for the purpose of discussing particular questions, such as disarmament, reparations or customs union.

You will recollect that the primary object of the visit is to serve as a gesture of friendship and 'equality', which might strengthen the Brüning Government *vis-à-vis* its own public opinion. We do not want it to serve as the occasion for detailed, still less technical, discussions. This does not, of course, preclude a general exchange of views on current questions.

I expect they may wish to discuss disarmament, but in regard to Young plan I doubt if we could at present add much to our view as expressed in our despatch No. 1159¹ of 2nd December. As to the tariff question, the possibility of its discussion at Chequers must naturally depend upon the developments at Geneva. Is there any other question which the Ministers will want to discuss?²

¹ See Vol. I of this series, No. 338.

² Sir H. Rumbold replied that the German Ministers understood that the meeting was not intended to serve as an occasion for detailed and technical discussions. They expected a general exchange of view on current questions, e.g. disarmament, and the economic situation in Europe (including reparation payments).

No. 43

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received May 6)

No. 321 [C 3019/70/18]

BERLIN, May 1, 1931

Sir,

Since the autumn of last year I have had the honour to refer in my despatches to the attitude taken up from time to time by the German Government with regard to the question of reparation. In particular, in my despatch No. 111¹ of the 5th January, 1931, I wrote: 'A broad hint is being conveyed to the German nation that they may expect in the course of the year to see an attempt made to obtain an alleviation of their reparation obligations.' Again, in my despatch No. 158² of the 4th March, I wrote as follows: 'Should the tension become acute after an interval in which no prospect of improvement in the general economic situation of the world has appeared, the popular demand for immediate relief, even at the expense of a more far-sighted policy, may force Dr. Brüning to reconsider his position with regard to reparation.'

2. It is not my intention to give in this despatch any detailed account of the progress of opinion in this country on the reparation question; nevertheless, in view of the forthcoming visit of the German Ministers to England, it appears desirable to attempt some forecast of their attitude. Since it is probable that Dr. Brüning will not be accompanied by any expert adviser, it may be hoped that no detailed discussion of reparation will be entered into at Chequers; but I fear it must be assumed that a general *exposé* of the German case is inevitable.

3. I am not aware of the exact lines on which the German Ministers may choose to present their case. Nevertheless, from the general trend of public discussion, one may anticipate that they will lay emphasis on four main points.

4. The first point is the state of the public finances. Full figures of expenditure for the year 1930 are not yet available; but the actual revenue received fell short of the estimates by nearly 780 million reichsmarks (£39 million), while expenditure will probably be found to have exceeded the estimates by well over 300 million reichsmarks (£15 million). The total deficit for 1930 will therefore considerably exceed the figure of 1 milliard reichsmarks (£50 million),

¹ See Vol. I of this series, No. 344.

² *Ib.* No. 353.

instead of being, as had at one time been hoped, below £40 million. This disappointing result, naturally, affects the 1931 budget also; not only is the cash position increasingly strained, but the growing falling-off in revenue indicates that the estimates for 1931 may have been framed on too optimistic a basis. I understand that the Minister of Finance views the position with great anxiety, and is seriously considering whether he should not insist on further sacrifices in the hope of balancing the budget. It may be taken for granted that Dr. Brüning will emphasise that the imposition of further burdens on the German people will inevitably lead to a renewal of the popular pressure upon him to initiate a more active reparation policy. Nor can he fail to refer to the problems which a continuance of the depression into next winter will inevitably present.

5. In the above connexion, I should report that the United States Ambassador, who went to America on leave of absence on the 23rd ultimo, told me in confidence before his departure that when his intention to go on leave became known it had caused considerable speculation in the press. He was going on leave in the ordinary course and without any ulterior object, but the speculations in the press had led to an intimation from the Chancellor that Dr. Brüning would like to see the Ambassador before his departure. Mr. Sackett had not intended to ask for an interview with Dr. Brüning, but the latter, who had been away on a holiday, returned to Berlin on the day of Mr. Sackett's departure and received him that morning. According to an authoritative statement published in the evening edition of the 'Berliner Tageblatt' on the 23rd April, the Chancellor took advantage of Mr. Sackett's visit to describe once again the financial, economic and political situation and the needs of Germany. Expectation here is that Mr. Sackett, who is well disposed towards this country, will repeat what Dr. Brüning said to the President.

6. The second point is one which has emerged in several recent utterances of the Minister of Finance, namely, the shortage of German capital. It is pointed out that an economic revival in Germany is impeded by the lack of capital; that this lack is increased by the payment of reparations; that reparation flows principally to France and the United States, which countries have already an excess of capital, so that the reparation payments represent a loss of capital to the world economic system as a whole; and, finally, that, so long as foreign countries, and particularly France, refuse to make long-term loans to Germany, the maldistribution of gold and the economic disorders in the world will continue.

7. In the third place, stress will undoubtedly be laid on the fall in world prices since the Young plan was signed. It is becoming a commonplace of journalistic comment that the Young plan must be deemed to contain a clause '*Rebus sic stantibus*', and that the situation has so radically altered that the plan has lost validity. It is, indeed, admitted that Germany benefits to some extent from the fact that prices of raw materials have fallen more sharply than those of the manufactured goods which are Germany's principal exports. But it is argued that Germany has lost heavily through having held large stocks of raw materials bought at high prices before the slump; and that she will suffer more and more in future through the growing lack of purchasing power in the

countries which export raw materials, who will thus become unable to buy German goods.

8. Finally, increasing emphasis is being laid—as was shown in the speech of the President of the Reichsbank, reported in my despatch No. 154¹ of the 3rd March—on the failure of the creditor countries to act in the spirit of co-operation explicitly foreseen as essential in the Young plan. Reference is repeatedly made to the general tendency towards the increasing of tariff barriers. Germany's own measures for agricultural protection, which are necessary in order to reduce her import of food-stuffs, have provoked threats of reprisals against German manufactured goods in Holland, Scandinavia and the Argentine; the opposition to the projected Austrian customs union is another obstacle to the development of German exports, which must be encouraged if reparation is to be paid; the lack of long-term investment by France, and the utter unreliability of French short-term balances, evidence the same lack of co-operation; while criticism is not lacking of the failure of the Bank for International Settlements to lend effective assistance to Germany to transfer reparation.

9. The above paragraphs give in outline the type of consideration which Dr. Brüning may be expected to bring forward. Developments between now and the beginning of June may diminish the force of some of the above arguments, or suggest others, but you will probably be glad to have an opportunity of thinking over in advance the method in which such observations may best be answered. It is too early to attempt to indicate in what spirit the German Ministers will approach the question, since much will depend on the course of events at Geneva. But the action regarding the Austrian customs union has been an undoubted internal political success; it is believed that, externally, it has brought an atmosphere of reality into the endless and fruitless economic discussions of Geneva, and a section, at least, of German opinion is coming to believe that Germany has nothing to gain by waiting for an American change of heart about the war debts, and little to lose by challenging French stubbornness over reparation. Accordingly, although Germany is financially in no better position than during last autumn, Dr. Brüning may, nevertheless, feel able to adopt a stronger tone than would have been possible six months ago.

I have, &c.

HORACE RUMBOLD

¹ Not printed.

No. 44

Note by Mr. A. Henderson of a conversation with M. Briand

[C 3595/2018/18]

GENEVA, May 22, 1931

I spoke to M. Briand on the 22nd instant about the forthcoming visit of the German Chancellor and German Minister for Foreign Affairs to Chequers and told him that I wished him clearly to understand that the visit was of a purely courtesy character and that we had no programme of discussion.

M. Briand said that he perfectly understood the position. He had hoped some weeks ago that, had difficulties not been experienced in connection with the Franco-Italian naval understanding, it might have been possible to arrange for the signature of the agreement in London, when he and Signor Grandi could attend and advantage might have been taken of the occasion to invite the German Ministers so that a general conversation might take place. That idea had come to nothing. In the meantime he could assure me that he would take steps in France with the press to ensure as far as possible that the visit to London was not made the occasion for excitement and was understood by French opinion in its proper perspective.

I thanked M. Briand for this assurance and again emphasised to him that there was no question of any definite programme being discussed with the German Ministers.

No. 45

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received June 2)
No. 397 [C 3733/11/18]

BERLIN, May 29, 1931

Sir,

It may be useful if I attempt, on the eve of the meeting at Chequers, to give you a short appreciation of the political situation in Germany at the present moment.

2. The task of the Brüning Government does not get easier with time. In his efforts to put Germany's house in order, which means to bring about financial equilibrium, the Chancellor was bound to antagonise one or more of the parties at present supporting him. The imminence of an emergency decree, about the contents of which there has been much speculation, but which it is known will call for sacrifices, either by means of fresh taxation, diminution of salaries, reductions in departmental expenditure or other methods, has stirred up public opinion and party feeling. I am told, from a good source, that the Social Democratic leaders are seriously considering their attitude towards the Brüning Government, and this question is bound to come up for discussion at the party convention at Leipzig on the 1st June. It must be borne in mind that those leaders can almost be classed as *bourgeois*, but that the rank and file are much more to the Left. The Social Democratic party has been much shaken by the recent Landtag elections at Oldenburg, referred to in my despatch No. 370¹ of the 19th May. Its attitude to the Brüning Government is, of course, a matter of cardinal importance.

3. In the meanwhile Hitler is observing developments with an attentive eye. He may hope that in the event of a defection of the Social Democratic party the Chancellor will be driven to enlist support from the Right. His watchword

¹ Not printed. In these elections, which took place on May 17, the Communist Party gained almost 40 per cent., the National Socialist Party gained 33 per cent., and the Social Democratic Party lost almost 13 per cent. in relation to their respective polls at the elections for the Reichstag in September 1930.

for the moment is 'Moderation', and the striking Nazi successes in the recent elections in Oldenburg cannot fail to stimulate enthusiasm for the party. A member of my staff who recently attended a large meeting in Berlin at which Hitler spoke reports that unbounded enthusiasm was shown. Hitler here spoke no word of politics. He spoke of self-discipline, self-control, self-sacrifice and thundered against materialism, slack manners and morals. Like an American revivalist, he worked 10,000 young people up to indescribable ecstasies of excitement.

4. I sat next to the Chancellor yesterday at a luncheon party which he gave in honour of the Irish Minister for External Affairs. Speaking of the recent elections in Oldenburg, I said that they appeared to me to confirm the process of attrition amongst the middle parties which has been going on for some time past. If that process were to be continued might not the time come when the parties in question would disappear for all practical purposes, leaving only four great parties in the field, *i.e.*, Communists, Social Democrats, Centre and Nationalists? Dr. Brüning, after explaining that Oldenburg was a predominantly agricultural State, and that the elections had been largely influenced by causes such as the increased price of cattle fodder, reminded me that a year ago the middle, or *bourgeois*, parties had had an opportunity of coalescing and forming one large party. Had such a party come into being he thought that it would have attracted to itself many voters who now voted for one or other of the extremist parties. The attempt had failed. It was unfortunate that, owing to the present constitution of the Reich, elections in one Federal State or another were constantly being held, and public opinion thereby kept in a state of unrest. Talking of Hitler, the Chancellor said that, whilst his personal impression of him, as a result of a meeting which he had had with him, was that Hitler was not unreasonable, the Nazi party was quite unfitted for responsibility. Only ten men out of the 107 Nazi Deputies in the Reichstag had any parliamentary experience. The rest were young and unbalanced.

5. I do not propose in this despatch to allude, except in passing, to the reaction of foreign policy on internal affairs in Germany, because my recent despatches, and in particular No. 390¹ of to-day's date, will give you a full summary of press and public opinion with regard to the two main preoccupations of the German Government in the domain of foreign policy, namely, the projected Austro-German Customs Union and the revision of reparations. The latter question is very much in the foreground of the picture at the present moment, and German Ministers speak openly of the necessity for revision. The Minister for Railways, for instance, whom I met at a dinner given by Dr. Curtius yesterday, told me that the railway receipts so far this year were 25 per cent. below the corresponding receipts for last year, which was itself an unfavourable year. He even hinted that it would be difficult for the State railways to furnish their quota of reparation payments. 'We are', he said, 'being stifled by reparation payments.'

6. To sum up, the Brüning Government are at grips with two problems, *i.e.*, difficulties with their supporters, which increase *pari passu* with the sacri-

¹ Not printed.

fices which they feel it necessary to call for from the nation, and the achievement of some action in the domain of foreign policy which will hold out a prospect of a measure of relief in the near future for German economy.

I have, &c.

HORACE RUMBOLD

No. 46

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received June 4)

No. 400 [C 3847/11/18]

BERLIN, June 3, 1931

Sir,

It is at this moment somewhat disheartening to have to report that a particularly aggressive rally of the 'Stahlhelm' took place at Breslau on the 1st June, when extremely intemperate speeches were delivered by the president and leaders of the association. The occasion was the anniversary of the first great rally of the organisation twelve years ago. It is unfortunate that no attempt is made by the leaders of organisations of this kind to fall in with the general requirements of the political situation, more especially the external situation of this country. It will be recalled that the last great Stahlhelm demonstration took place soon after the evacuation of the Rhineland. It was held at Coblenz and attended by a pompous gathering of generals of the old army as well as by members of the former reigning houses, including the ex-Crown Prince. It was not unnaturally understood abroad that the demonstration was directed against France, whose troops had just quitted the Rhineland.

2. In the present instance the demonstration has all the appearance of having been directed with equal emphasis against Poland, and with that peculiar obtuseness which is so often characteristic of political leadership in this country, it is held on the eve of a visit of the German Chancellor to England, and only a few days after the spirited dispute between France and Germany at Geneva. In the case of the Coblenz demonstration, as in the present case, the promoters may probably have had the interests of their own organisation uppermost in their minds; but it never seems to occur to party leaders in this country that the interests of the country itself should be given priority over individual party interests. The Stahlhelm is still fighting a hard battle against absorption by the Hitlerites and, at the time of writing, it seems to have entered into a fairly close alliance with the Hugenberg Nationalists, especially in connexion with the coming referendum in Prussia. The meeting in Breslau, which cannot fail to be interpreted as a provocative gesture by Poland, and thus embitter feeling there and in France, is probably intended by the Stahlhelm leaders as a counter move to the big summer recruiting campaign of the Hitlerites.

3. It is estimated that more than 100,000 members of the Stahlhelm organisation were present. An Austrian deputation followed by a small group representing Strasbourg and Alsace, headed the procession; the Berlin detachment included Prince Oscar of Prussia; and the former Commander-in-chief

of the Reichswehr, General Heye, who, wearing what appeared to be regulation Reichswehr uniform, marched in the ranks. The salute was taken by the Stahlhelm leaders, Herrn Seldte and Duesterberg, who were accompanied by the former Crown Prince and Crown Princess, Field-Marshal von Mackensen, and a number of generals of the old army. As usual, General von Seeckt occupied a prominent place in this gathering of notabilities.

4. The principal speech was delivered by the Stahlhelm leader, Herr Seldte. The ex-service men had formed up in a vast meadow on the western bank of the Oder below the city of Breslau, facing west.

'Comrades', began Herr Seldte, 'your field grey front stands in the eastern marches, only 50 kilom. from the frontier of that country whose threats and cries of hatred have resounded in your ears for the past twelve years, whose politicians and officials vie with each other in persecuting the men of our race surrendered to them by the arbitrary frontiers laid down at Versailles. You are standing in the centre of the disputed frontier area. . . . We raise our voices to ask that no resources of internal or foreign policy should remain unexploited in the effort to bring effective help to the hard-pressed eastern frontier provinces, more especially Silesia. We are well aware that the rescue of the eastern provinces can only be effected by a strong national Government in the Reich and above all in Prussia. For that reason we have to fight, and the fight for Prussia has now commenced with the referendum.

'The fight for the existence of the German people will be decided here in the east, in this very province where the so-called victors of Versailles were guilty of the incredible folly of violating the historic eastern frontiers, thereby amputating historic German territory. . . . The territory remaining to us in the east is constantly threatened by our Polish neighbours; their politicians long to occupy East Prussia and annex further portions of German territory as far as the Oder. This we will never allow.'

5. Here Seldte suddenly interrupted his speech, gave the order 'About turn!' and went on to say: 'Comrades, there is the German east. There lies Germany's future, Germany's fate.' The members of the organisation, now facing the Polish frontier, sang the usual songs and made the customary solemn promises to fight for Germany's freedom. The usual telegram from Field-Marshal von Hindenburg thanking his former comrades, the ex-service men, for their greetings, was duly read, and the gathering disbanded after marching past the saluting base in the broiling sunshine for some seven hours on end.

6. Towards midnight collisions began to take place between isolated bodies of Communists and Stahlhelm men, in the course of which one of the latter was killed and three injured. Despite the ordinance issued by the President of the Reich on the 28th March last, there seems to be no diminution in the hatred and rancour with which political parties and organisations pursue their aims in this country. The 'Berliner Tageblatt' of the 1st June publishes a calendar for the months of April and May showing that since the issue of the ordinance hardly a day has elapsed without a fatal brawl between members of different political parties. The total casualties are stated to amount to fifteen dead and

over 200 severely wounded, the majority of these belonging to the National Socialist or Communist parties.

7. In press reports it is interesting to note that newspapers of the Right, notably the Hugenberg organs, report Seldte's speech very briefly, omitting the aggressive references to Poland, while newspapers of the Left, such as the democratic 'Berliner Tageblatt' and 'Vossische Zeitung' quote the aggressive passages. According to the Centre press the Cardinal Archbishop of Breslau, 'was unable, owing to pressure of work, to receive the heads of the organisation'. On the other hand, the local authorities, including the Oberpräsident and other Prussian officials attended the reception.

8. The Chancellor's organ, 'Germania', of the 2nd June, gives expression to its annoyance with unusual frankness. It speaks with derision of those circles 'who still prefer glittering uniforms and noisy speeches to the humdrum practical work of providing the people of Germany with the bare needs of existence'. It complains that members of the former reigning houses evince a disposition to forget their solemn undertakings to keep aloof from German political life. It endorses the view of the democratic 'Vossische Zeitung' that the Stahlhelm heroes in Breslau stand in the same relation to the responsible Government of the country as the troops guarding the lines of communication did to the men in the front-line trenches.

9. The National Socialist press speaks admiringly of the Breslau display, but the 'Völkische Beobachter' and other organs of the party relegate the matter to the back page, omitting the speeches of the leaders. They even betray some envy of the glittering personalities attending the Stahlhelm parade and of the popularity of the Stahlhelm in Reichswehr circles.

I have, &c.

HORACE RUMBOLD

No. 47

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received June 5)

No. 53 Telegraphic [C 3863/11/18]

My despatch No 397.¹

BERLIN, June 4, 1931

During the last two months the prospect of meeting at Chequers has helped to distract public attention from the hardships of the situation in Germany. It is continuing to serve its purpose of assisting Brüning Cabinet to carry on Government in face of difficulties.

New emergency decree imposing fresh and onerous taxation, while making unpopular cuts in social expenditure, is obviously being issued under the shelter of Chequers, and while press is urging Chancellor to concentrate on reparations during his stay in England, public are being made acquainted with new financial measures in dribbles.

The Social Democrats are successfully utilising Chequers at party convention at Leipzig to pacify their left wing, which is impatient with official policy of tolerating Brüning régime.

¹ No. 45.

On eve of his departure Chancellor was bombarded with advice from all quarters. Heavy industrialists urged him to tackle reparations problem with particular energy at Chequers and to embark on a wage reduction campaign on his return.

There is a general tendency to attribute Germany's economic difficulties mainly to reparations payments. All parties seek path of least resistance, and plead for reparations remissions. It is felt that failing these either past sacrifices will have been in vain or such politically dangerous measures as reduction of war pensions and army estimates must be attempted. New emergency decree must in fact be the last.

Ministry for Foreign Affairs has undoubtedly done its best to damp down expectations of immediate benefits from visit of German Ministers, and its efforts have found some echo in intelligent circles. Nevertheless public opinion naturally entertains vague hopes. There is at least an expectation of an attitude of sympathy towards Germany's troubles, if not of support in a reparations move. Otherwise once Chequers has receded into the past, the future may seem lacking in possibilities from which relief could be expected.

A skilfully-worded communiqué to the press on the upshot of Chequers' conversations might be helpful.

No. 48

Mr. A. Henderson to Sir W. Erskine (Warsaw)

No. 375 [C 3849/11/18]

FOREIGN OFFICE, June 6, 1931

Sir,

With reference to Berlin despatch No. 400¹ of the 3rd June last, I transmit to your Excellency, herewith, an account of an interview which took place on the 3rd June between the Polish Ambassador and the Under-Secretary of State for Foreign Affairs, in which M. Skirmunt stated that his Government had instructed him to draw my attention to the recent meeting of the Stahlhelm at Breslau.

I am, &c.

ARTHUR HENDERSON

ENCLOSURE IN No. 48

Note by Sir R. Vansittart

The Polish Ambassador came to see me this afternoon. He said he had come, on the instructions of his Government, to draw the attention of the Secretary of State, whom he hoped to see later, to the recent meeting of the Stahlhelm at Breslau.

He said the German Government, while perhaps not overtly approving these manifestations, had at least done nothing to discourage them, and had assisted them by the running of special trains and other measures. He mentioned that the President was an honorary member of the Stahlhelm and

¹ No. 46.

recalled his action in their favour in refusing to visit the Rhineland while Stahlhelm meetings were prohibited there. He said that a great deal more had happened at Breslau than had been reported in the press here, and that the speeches had been even more violent, and had been listened to with approval by bevvies of distinguished German generals, including Mackensen and von Seeckt. He said that manifestations of this kind, which naturally produced as much disquiet in Poland as the Coblenz meeting had produced in France, were a very genuine obstacle to disarmament. They also had a bad effect on the agitation in Polish Silesia, and generally produced an atmosphere of disquiet and alarm throughout Europe.

He then proceeded to throw out a strong hint that he hoped that some allusion might be made to these demonstrations during the Chequers visit.

I said, in reply, that I would of course report what he had said to the Secretary of State. I could and would add that, for my own part, I deplored these demonstrations just as much as he did. They did nothing but harm, and I devoutly hoped they could be stopped. I added that if, speaking personally, any opening or opportunity occurred during the German visit, I should naturally make no secret of my opinions to the German Ministers or their entourage. But, I proceeded, did he really think that the present German Government were, in effect, capable of stopping them? I should be very glad if they were, but I did not think that we must necessarily expect too much of them. It was the best Government we could hope for and had great difficulty in maintaining its equilibrium. I felt sure that, in the near future, it would experience still greater difficulty. If we expected from them, or pressed them for, too much, we might well be instrumental in procuring their downfall, which would be a far greater disaster than the meetings of the Stahlhelm. I said I was clearly of opinion that this was the best German Government we could expect, and the alternative was one that would fill me and, I believed, everybody else with real alarm. I asked him if he did not share that view. His reply was of a somewhat hedging nature. I then asked him again if he really believed the present German Government were strong enough to enforce a prohibition of these meetings. He evaded a definite reply to this question. He said, possibly with some truth, that he believed the Government rather liked these manifestations to take place so that they might exploit them for their own propaganda.

No. 49

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 7)
No. 313 Telegraphic [C 3887/70/18]

WASHINGTON, June 6, 1931

Secretary of State sent for me urgently to-day and said that very serious situation as regards reparations was arising in connexion with Chequers Conference. In addition to the vast sums borrowed as bonds by Germany, there was still about 1,000 million dollars of foreign short-term money in the country in spite of reductions effected since election last autumn. German situation was

still very precarious and likely to degenerate into panic through accelerated withdrawal of this short money. His Excellency greatly admired the Chancellor's policy, but nervousness increased as his visit to England approached, and had been especially increased here by press messages received this morning. He instanced especially the message from Berlin given in my immediately succeeding telegram.¹ With regard to the German manifesto reported in this message, Secretary of State said that, as thus presented, it tends to emphasise Germany's inability to pay, and as summarised by Mr. Wilberforce certainly gives the impression that Germany intends to declare what practically amounts to a moratorium. This seems likely to have disastrous effect on German credit here.

Total result of this manifesto has been to obscure what United States Government deems to be principal object of such a statement, namely, to announce Germany's purpose in superseding her reliance on foreign loans in making reparation payments by new measures of internal taxation. Net result seems likely to harm Germany's situation by destroying her credit beyond any measures of relief that could conceivably be afforded in respect to reparations.

Seriousness of German situation has been evident enough to emphasise necessity for careful consideration without any need of such an unfortunate announcement.

It may be impossible to avert harm already done, but Secretary of State thinks that the conferences at Chequers, before putting out any further announcement, had better know the effect of this one.

¹ Not printed. The message in question was a press report summarising the manifesto issued by the German Government on June 6 in connexion with the publication of an emergency decree of the same date. The decree imposed considerable increases in taxation and reductions in salaries and rates of unemployment benefit. The manifesto declared that the 'tributary payments' made by Germany 'as the vanquished side in the Great War' entailed very heavy burdens. The limit of sacrifice had been reached, and Germany had the right to claim relief from 'intolerable reparation obligations'.

No. 50

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 7)

No. 315 Telegraphic [C 3889/70/18]

WASHINGTON, June 6, 1931

My two immediately preceding telegrams.¹

Secretary of State, who was somewhat agitated, said what United States Government most desired was, of course, that German Government should pursue financial policy hitherto followed of making both ends meet as long as possible without recourse to anything resembling moratorium. President, he said, had been watching the whole situation with utmost care, and both he and Administration were most anxious to help in any way possible, though he added it was extremely difficult for them to be helpful now. He was led to fear Chequers Conference might result in some declaration of moratorium, and he hoped at least that, if so, the declaration should take the form likely to create

¹ No. 49.

least damage to the credit conditions in the world. In particular, he said it should be made clear that the commercial debts were to remain unaffected, and that any moratorium declared in respect of reparation payments would be calculated to increase security [*sic*] of commercial indebtedness; this latter point he made to me twice. He was particularly anxious that these considerations should be before you before any statement is issued by conference.

No. 51

Mr. A. Henderson to Mr. Yencken (Berlin)
No. 627 Confidential [C 4041/2018/18]

FOREIGN OFFICE, June 13, 1931

Sir,

With reference to my telegram No. 62¹ of the 9th June, I transmit to you herewith a record of the conversations with the German Ministers which took place at Chequers on the 7th June. No mention was made of disarmament during these conversations.

2. On the 8th June the French and Italian Ambassadors, and on the 9th June the Belgian counsellor, were informed of the gist of these discussions.²

I am, &c.

ARTHUR HENDERSON

ENCLOSURE IN NO. 51.

Summary of the Discussion with the German Ministers at 'Chequers' on
Sunday, June 7, 1931³

Present:

The Prime Minister.
The Secretary of State for Foreign
Affairs.
The President of the Board of Trade.
Sir Robert Vansittart.
Sir Frederick Leith-Ross.

The German Chancellor
(Dr. Brüning).
The German Foreign Minister
(Dr. Curtius).
Dr. Schmidt (Interpreter).

(During part of the discussion the Governor of the Bank of England, the German Ambassador, and Count Bernstorff were also present.)

The Prime Minister began by referring to one point which had arisen during the discussion on Saturday.⁴ Both the German and British Ministers had remarked how fortunate it was that Mr. Stimson, the American Secretary of State, was visiting Europe this summer. This visit would enable Mr. Stimson to obtain first-hand knowledge of the situation in Europe, and the hope had been expressed that the impressions he received might influence the attitude of Washington. The Prime Minister thought that it was very desirable that

¹ Not printed. This telegram gave a summary of the conversations of June 7.

² On June 8 Mr. MacDonald wrote a personal letter to Mr. Stimson summarising the discussions. This letter is printed in *Foreign Relations of the United States, 1931*, Vol. I, pp. 11-14. No record of the letter is available in the Foreign Office archives.

³ This record was made by the British representatives for the use of His Majesty's Government.

⁴ No record is available of the informal discussions on June 6.

neither in Germany nor in Great Britain should any publicity be given to such hopes, otherwise Mr. Stimson would be put in a very difficult position, and any prospects of good results from the visit would be destroyed. He pointed out the present political and economic position of the United States, and said that with the best will in the world the authorities there might find that little or nothing could be done. None of us ought to embarrass them. He had been rather surprised that Mr. Stimson's visit should have been already announced in the press, as he had just been told of it in great confidence.

Dr. Brüning said that he, too, had been warned of Mr. Stimson's visit in the strictest confidence, and had been surprised to find it announced in the papers. He agreed entirely that the visit should not be publicly referred to as likely to affect the attitude of America. He hoped, of course, to put before Mr. Stimson the position in Germany just as he had put it to the British Ministers, and it would be useful to know the reaction. As he had explained on the previous day, the German Government had gone to the utmost limit in enforcing new taxation and economies. The new decree had on the whole been well received by the German press, but the People's party had declared their opposition, which reduced the Government's majority to a very small figure. The German Government could not go further without grave danger of social unrest. The Young plan gave Germany the right to suspend the conditional payments, but three months' notice had to be given beforehand. He was, therefore, compelled to look ahead; he would carry on as long as possible, but he felt that the limit would be reached at latest in November next.

Mr. Henderson said this was a very serious statement. They all recognized the difficulties of the German Government, but these difficulties could not be settled by one or two countries alone, they were world-wide. The question was whether there was anything we could do to meet the situation which would arise in a few months. It seemed to him that the best chance was to make use of the committees set up by the Commission of Enquiry into the European Union last month. They had appointed two Expert Committees, one of economists and one of financiers, with a Political Committee to co-ordinate their work. These committees would have a very wide reference, and they might be useful in preparing the ground.

Dr. Curtius did not think that this line of approach was possible or expedient. The Expert Committees were limited to the investigation of the various proposals which had been put forward at Geneva, and they could not enter into any discussion of reparations. The Co-ordinating Committee, on the other hand, would consist of representatives of the twenty-seven European States, and any discussion of reparations there would be likely to antagonise the United States as being an attempt to make a common front in Europe against America. He felt that the only body to which the reparation question could be referred was the Bank for International Settlements, whose duty it was to supervise the working of the Young plan.

In answer to some observations of Sir Robert Vansittart on long-term credits, and some actions of the German Government which had not had the effect of encouraging them, Dr. Curtius stated that Germany was long past

loans and had neither the desire nor the ability to solve her difficulties in that way.

Mr. Henderson thought that Dr. Curtius had not fully appreciated the decisions taken at Geneva. He referred to the document, and pointed out that the committees had been given the widest possible reference. The Committee of Economists was to examine 'in complete freedom and in a spirit of liberal understanding all means which may seem calculated to bring about closer and more fruitful co-operation between the different countries with a view to improving the organisation of production and trade.' The Co-ordinating Committee was to co-ordinate and amplify the conclusions of the Expert Committees. 'But its competence will not necessarily be limited to the questions dealt with at those meetings. On the contrary, the economic sphere with which it will deal is to be conceived on the widest lines. It will, therefore, be free to make to the Commission of Enquiry any proposals on economic questions that it may think fit.' He did not suggest that these committees could enter into details or put forward definite proposals for the settlement of reparations, but they might well draw the attention of the world to the importance of the subject, as one of the elements in the present world crisis, and thus put the question to the Governments to deal with.

Dr. Curtius pointed out that the Economic Committee's reference was limited to proposals for improving 'the organisation of production and trade,' and though the Co-ordinating Committee had a wider reference he still adhered to his view that it was very difficult for them to discuss reparations.

Sir Frederick Leith-Ross suggested that the points of view put forward by Dr. Curtius and the Secretary of State were not necessarily opposed. He agreed with Dr. Curtius that the European Union was not a suitable body for revising the reparation settlement; indeed, any direct attempt to revise the Young plan at the present time seemed to him most difficult and dangerous. The best course seemed to be to approach the question from the wider standpoint of the general world crisis. For that reason the British delegation at Geneva had insisted on making as wide as possible the terms of reference of the various committees which it had been agreed to appoint. They had explained both to the French and other delegations that their hope was that these committees, like the Dawes Committee, in regard to reparations, might be able to throw a new light on the economic crisis, or at least to diagnose the difficulties in an authoritative manner.

(At this point the Governor of the Bank of England came in.)

The Prime Minister summarised the discussion which had been taking place, and emphasised the risk of the present situation and the difficulty of finding any positive course of action which would not make matters worse. He invited the Governor to express his views.

The Governor said that he had not been present at the preceding discussions, but he assumed that the Germans had come to explain that they could not continue to pay reparations.

Dr. Brüning and Dr. Curtius dissented, and explained that they had come

merely to explain the difficulties as they saw them. They would certainly continue to execute the Young plan as long as possible. They could not help feeling, however, that the time was approaching when they would have to take advantage of the safeguards in the plan, and they felt bound to communicate this feeling, in a spirit of loyalty, to the British Ministers. Dr. Curtius also observed that, so far as awaiting a favourable moment for approaching the United States was concerned, Germany could not possibly wait so long as eighteen months.

The Governor said that they were no doubt preparing the way for the future. He wished, however, to emphasise that the immediate danger point was not Germany, but the south-east of Europe. He had been on the previous day in almost constant telephone communication with Basle and Vienna, and he regarded the situation in Austria as being exceedingly critical.¹ Unless everybody could be got to co-operate in the work of reconstruction, there would be a catastrophe. The matter would have to be settled during the course of the next few days, but if a catastrophe occurred, it would not be confined to Austria; the trouble would inevitably spread to the neighbouring countries, and particularly to Germany. The immediate thing, therefore, was to get through the present Austrian crisis, and it was most desirable to do nothing that would disturb confidence further. He did not wish to belittle the difficulties of the German Government, but it was a less urgent problem. Germany had already gone through two or three financial crises which would have been fatal to any other country; she had shown a wonderful power of recuperation, and she might well get through again. He did not believe that any good could be done by raising the question of reparations at Geneva. America would not be ripe for a discussion of reparations for twelve months or more; and any League Committee which raised the question would merely antagonise opinion in America.

Sir Robert Vansittart then pointed out that America would not be ripe for a discussion of reparations for much longer than twelve months; indeed, on present showing, the question could not be touched with any prospect of other than bad results until after the elections of November year, *i.e.*, much more like two years.

Mr. Henderson said he thought that opinion in America was changing, and instanced a recent speech in which Senator Borah advocated the cancellation of debts. The situation of Europe was very serious, and it had to be faced. He asked whether the Government were to regard themselves as helpless and to sit with folded arms watching events.

The Governor agreed that the situation in Europe was certainly critical,

¹ On May 11, 1931, the Austrian Government had announced that it would guarantee the depositors of the *Credit-Anstalt für Handel und Gewerbe* and issue Treasury bonds to cover the losses of this bank. The guarantee, in spite of additional assistance from the Bank for International Settlements, soon involved the Austrian Government in the risk of financial collapse. On June 16, pending the completion of negotiations for an international loan to the Austrian Government, the Bank of England made an *interim* advance of 150,000,000 schillings (£4,300,000) to the Austrian National Bank, in order to provide the latter with funds for meeting the foreign liabilities of the *Credit-Anstalt*.

and he doubted whether the Geneva Committees could do anything. But he felt sure that if there were fresh shocks to confidence, the committees would have not to diagnose the difficulties of Europe, but to conduct a post-mortem on the corpse.

The Prime Minister said that the credit aspects of the present situation were very serious and deserved the fullest consideration by the German Government. They had, of course, their political difficulties at home, but they might be buying a political respite at too high a price if they took action which ruined the credit of Germany. As they knew, nothing could be done by the British Government alone, and they must await Mr. Stimson's visit to find out the American position.

Sir R. Vansittart suggested that there was really little to be hoped for, or at least counted on, from that visit; Mr. Stimson could achieve few conversions, even if he were not too alarmed to be converted himself.

The Prime Minister then asked whether the German Ministers had yet approached the French, and he suggested that they should arrange to have a cordial and frank exchange of views with French Ministers just in the same way as they were now having them with British Ministers.

Dr. Brüning replied that they had already had this question before them. Quite privately he could say that, early in May, he received a message from M. Briand suggesting a meeting. He had replied from Badenweiler that he and Dr. Curtius would readily agree to such a meeting. The next day the emissary from M. Briand came back and said that M. Briand was sorry, but the meeting could not conveniently be arranged. He asked that this episode should be kept quite secret, as obviously it would be very damaging to him in Germany if it were known that he had agreed to a meeting with the French Ministers and the French Ministers had not pursued the idea. In view of this it was quite impossible for him now to initiate any such meeting.

Mr. Henderson suggested that the apparent change of attitude on the part of M. Briand was possibly due to the approach of the presidential elections, which had upset the political situation in France for weeks before it took place.

Dr. Brüning agreed that this might be the case, but it was very difficult for him to keep control in Germany if he could not hold out any hope. The people were in despair, and the growing power of the Nazis and Communists was a menace. If the elections had taken place last December instead of in September the situation would have been hopeless.

Sir F. Leith-Ross said that he personally was convinced that there was no hope of any revision of the Young plan at present. The best hope for Germany was in the Geneva discussions; even though the Committee did not touch directly on reparations, they might materially help Germany if, for example, they secured a general reduction of tariffs. He deprecated the insistence of German Ministers that a crisis must come in November. It might well prove that the situation then was no worse than at present.

(At this stage there was an adjournment, during which Sir Robert Vansittart brought up three telegrams Nos. 313,¹ 314,² and 315³ from Sir

¹ No. 49.

² See No. 49, note 1.

³ No. 50.

Ronald Lindsay reporting the unfavourable impression made on Washington by the manifesto issued in Berlin on the previous day.) (It was agreed that these telegrams should be read to the German Ministers.)

The Prime Minister said that he had just received three important telegrams from Washington showing that the manifesto issued in Berlin yesterday, as reported by American newspapers, had made a very unfavourable impression in the United States, and was regarded as likely to affect Germany's credit in America seriously. He thought that in the spirit of frankness with which the discussion was being conducted, the best course was to ask Sir Robert Vansittart to read out the telegrams in full.

After the telegrams had been read, Dr. Brüning said he could not understand why Washington should be so upset. The manifesto contained no reference to a moratorium at all; it merely repeated the declaration that both he and Dr. Curtius had already made several times in the Reichstag.

The Prime Minister remarked that a published statement often made a much more serious impression than statements made in the course of a parliamentary speech.

The Governor of the Bank of England said that the last passage, viz., 'that the economic and financial situation of the Reich inevitably compels the relief of Germany from the intolerable reparation obligations,' was pretty emphatic. He had not seen this text before, and he could well understand the repercussions in America. It seemed to him that this declaration entirely altered the situation. He hoped very much that the German Government had not any more surprises like this to spring during the next few weeks.

Dr. Curtius said that there were no more manifestos in preparation.

The Prime Minister said that he did not think they could carry matters further. It would be necessary to issue a communiqué to the press and they would have to give their French friends and the Italians an account of the discussion which had taken place. He suggested that Dr. Curtius and the German Ambassador should prepare a draft communiqué with Sir Robert Vansittart and Sir F. Leith-Ross.

Dr. Curtius quite agreed to this procedure. As regards communication with the French and Italians, he had no objection, but he would prefer that no reference should be made to the fact that the German Government expected difficulties next November. It seemed to him that a declaration on this point would come better direct from the German Government.

Mr. Henderson referred to the use of the word 'conference' in connexion with the present conversation. He had explained the whole thing personally to M. Briand, who had expressed himself as quite satisfied, and he trusted that the communiqué would make the informal character of the meeting quite clear.

The Prime Minister said that the French press seemed to have understood the position and to be taking quite a sensible line.

Dr. Curtius said that he had seen the representatives of the French press on

the previous day and had reiterated that the visit was primarily a social one and that no decisions were expected.

A draft communiqué was prepared and, after considerable discussion, during which the Governor of the Bank again emphasised the inadvisability of any reference to a moratorium, the communiqué was agreed in the following terms:—

‘During the week-end the German Chancellor, Dr. Brüning, and the German Foreign Minister, Dr. Curtius, visited Chequers.

‘The British Ministers present were the Prime Minister, the Secretary of State for Foreign Affairs, and the President of the Board of Trade.

‘On Sunday the Prime Minister and Miss MacDonald gave a luncheon, at which were present . . . [names omitted]

‘The visit was arranged several months ago as a means of establishing personal contacts. The opportunity of this informal meeting was taken for a friendly talk on the position in which the German Reich and other industrial States now find themselves.

‘Special stress was laid by the German Ministers on the difficulties of the existing position in Germany and the need for alleviation.

‘The British Ministers for their part called attention to the world-wide character of the present depression and its special influence on their own country.

‘Both parties were agreed that, in addition to efforts and measures of a national character, the revival of confidence and prosperity depended upon international co-operation.

‘In this spirit both Governments will endeavour to deal with the present crisis in close collaboration with the other Governments concerned.’

No. 52

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received June 15)

No. 413 [C 4078/2018/18]

BERLIN, June 11, 1931

Sir,

I met the German Chancellor and the Minister for Foreign Affairs at the station yesterday on their return to Berlin. Both Ministers expressed to me their great appreciation of the manner in which you and the Prime Minister, and everybody else with whom they had come in contact, had received them during their recent visit to England. Dr. Curtius said that the Chancellor's and his visit had fulfilled the expectations which they had entertained, inasmuch as they had been able to have a heart-to-heart talk about their difficulties. The pleasure which the German Ministers showed in talking of their visit was, indeed, evident to everybody.

2. I paid Dr. Curtius a visit this morning before going on leave, and he repeated to me what he had said to me at the station yesterday. He then went on to talk about the return visit which you and the Prime Minister had

promised to pay in Berlin.¹ He understood that you would be coming here next month in your capacity as president of the approaching Disarmament Conference, and he had gathered that you would be glad to be in Berlin at the same time as Mr. Stimson. He himself attached great importance to your meeting the American Secretary of State at Berlin, but a difficulty of what might be termed a 'protocol nature' would arise in that eventuality. Mr. Stimson was due to reach Berlin on the 21st July and would stay until the 25th. He had told the United States Ambassador, who travelled with the German Ministers from Southampton, that he did not wish to be received officially, which meant that there would not be any official banquets in his honour. The German Government, of course, meant to receive and entertain you officially, and it might, therefore, be a little awkward if Mr. Stimson were treated differently from yourself. Herr von Bülow, the Secretary of State, who was present at this discussion, observed that you would probably not be able to stay in Berlin as long as Mr. Stimson, and I ventured to suggest that if you really wished your visit to coincide with Mr. Stimson's it might be possible, if your arrangements allowed of it, for you to stay on for a day beyond what might be called your official visit. The German Ministers thought that this would be an excellent way out of the difficulty, but it would, of course, mean that your official visit would either precede Mr. Stimson's visit by, say, two days, or that it would commence after Mr. Stimson had left Berlin.

3. Prior to the arrival of Dr. Brüning and Dr. Curtius yesterday, I had an interview with the Secretary of State in order to get his reactions to the visit to Chequers. These I had the honour to summarise in my telegram No. 57² of yesterday's date. They were, indeed, wholly favourable, but Herr von Bülow did not conceal from himself that Dr. Curtius might eventually be exposed to attacks from various parties for not having returned with something more definite. The fact was, said Herr von Bülow speaking very confidentially, that there were a number of people here who 'were out', as he expressed it, 'for Dr. Curtius's scalp.' This confirms what I have already heard. Herr von Bülow could not explain why there should be this desire in several quarters for a change at the Wilhelmstrasse. I am equally at a loss to explain the matter. It is true that if Dr. Curtius is attacked for not having been able to achieve something definite at Chequers these attacks should logically include the Chancellor. But Dr. Curtius will, in Herr von Bülow's opinion, for various reasons which are not clear to the observer, have to bear the brunt of any criticism which may be directed against the two German Ministers.

I have, &c.

HORACE RUMBOLD

¹ It was announced on June 19 that this visit would take place on July 17. For the postponement of the date of the visit, see Chapter III.

² Not printed.

No. 53

Mr. Vencken (Berlin) to Mr. A. Henderson (Received June 12)
No. 60 Telegraphic [C 4053/11/18]

BERLIN, June 12, 1931

Political situation has become critical owing to a decision of People's party last night to vote for summoning of Reichstag.

Herr Dieckhoff, who attended a Cabinet meeting yesterday, stated emphatically in conversation that Chancellor would resign if it were decided to summon the Reichstag or if irresistible pressure were put upon him to declare a moratorium immediately. Chancellor's resignation, he considered, would inevitably lead to new election. Herr Dieckhoff added, however, that he did not believe that People's party would persist in their attitude when decisive vote was taken, probably next Tuesday.¹

Meanwhile Stock Exchange has again slumped heavily, and the selling is extending to fixed interest securities indicating an increase in nervousness and possibility of a renewed flight of capital.

¹ At a meeting of the Reichstag Procedure Committee on June 16 the German People's party withdrew their support of the demand. The proposal therefore did not receive sufficient support and a political crisis was averted.

No. 54

Mr. Vencken (Berlin) to Mr. A. Henderson (Received June 13)
No. 61 Telegraphic [C 4056/9/18]

BERLIN, June 13, 1931

My telegram No. 60.¹

Reichsbank rate will probably be raised to-day. Press comment, no doubt founded on semi-official statement by Reichsbank, admits to loss of 600 million marks gold and foreign exchange since beginning of June, and that some internal flight of capital has begun to take place. Defensive measures are therefore necessary, and if higher bank rate is ineffective, Reichsbank will not shrink from credit restriction. Leading articles show an extremely nervous tone and discuss the need for immediate reparation action.

¹ No. 53.

No. 55

Mr. A. Henderson to Lord Tyrrell (Paris)
No. 101 Telegraphic by bag [C 4055/9/18]

FOREIGN OFFICE, June 15, 1931

Your telegram No. 123¹ of the 13th June: German crisis.

There is no doubt that the situation in Germany is exceedingly critical. It

¹ Not printed. In this telegram Lord Tyrrell reported that the French Government had received through private sources 'somewhat alarming news' respecting the financial situation in Germany and suggesting that, if withdrawals from the Reichsbank continued on a large scale, a suspension of payments would become necessary. The French Government asked whether His Majesty's Government had confirmation of this news.

is, in fact, more critical than at any time during last six years. During the past few days, and in part at least for psychological reasons, the situation has rapidly deteriorated and has now become gravely alarming. Reichsbank has lost over £30 million during past ten days, mainly due to withdrawals of foreign money. If movement extends to German capital it may involve collapse of mark, with disastrous consequences not only to Germany but to Austria and to Hungary. As you know, the Reichsbank on Saturday raised its discount rate by 2 per cent., and it is hoped that this may have a steadying effect. But as the movement is due to political rather than financial causes, the increase of the bank rate may be ineffective. The political difficulties of the Brüning Cabinet, or any delay in settling the Austrian bank trouble, may in any case be sufficient to neutralise the effect of the increased bank rate. On the other hand, if, as of course we hope, the Brüning Government can survive their present political difficulties, and the Austrian trouble is cleared up, an easing of the financial situation may be hoped for. We are aware that there has been an improvement in the situation to-day, but financial circles here still feel deepest apprehensions. The key to the situation seems to rest with the United States and France. We should, of course, be prepared to join in any action that might be deemed salutary, but it would seem best for the first move for joint action to come from those chiefly interested, and it is no use disguising our fear that if confidence is not speedily restored we may be faced not merely with a complete cessation of reparation payments, but with a financial collapse in Germany and Austria, involving serious risk of political and social trouble in those countries and consequent repercussions on the rest of Europe.

We hope the situation is fully realised by the French Government.

(Repeated to Washington, No. 368; Berlin, No. 66; Rome, No. 151; Brussels, No. 31; and Tokyo, No. 78.)

No. 56

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 369 Telegraphic [C 4055/9/18]

FOREIGN OFFICE, *June 15, 1931*

My telegram No. 368¹ of 15th June: German Crisis.

You may communicate copy of above telegram to United States Government.²

¹ No. 55.

² On June 13 Mr. MacDonald and Mr. Stimson had a telephone conversation on the German crisis. No record of this conversation is available in the Foreign Office archives, but it would appear (see *Foreign Relations of the United States*, 1931. Vol. I, p. 18) that, owing to imperfect telephonic communication, Mr. MacDonald wrongly understood Mr. Stimson as announcing the readiness of the United States Government to approach the French Government with a view to initiating relief measures. On June 15, therefore, Sir Robert Vansittart explained to Mr. Atherton, United States Chargé d'Affaires, that, in the opinion

of His Majesty's Government, any measure of relief would have to be applied to all payments under the Young plan and agreements annexed to it, but not to the Young loan which was a commercial debt. Sir R. Vansittart anticipated that the French Government might press for a continuation of the unconditional annuities, but that this proposal would be fatal to the success of any general measure of relief. Mr. Atherton was informed by Mr. Stimson later on June 15 (*op. cit.* pp. 18-19) that the United States Government had not yet taken any decision in the matter.

No. 57

Mr. Newton (Berlin) to Mr. A. Henderson (Received June 16)

No. 64 Telegraphic [C 4115/9/18]

BERLIN, June 15, 1931

My immediately preceding telegram.¹

Stock Exchange is distinctly stronger to-day, and effect of raising Reichsbank rate has been good. Reichsbank inform financial adviser that exchange position, though better than on Friday and Saturday, is still anxious. Note circulation continues to diminish, and increase in bills discounted remains gradual.

Certain American representatives here have cabled their principals urging them to cease withdrawals, and reports are current of American banks checking withdrawals and even lending support to market. Reichsbank can, however, trace no change in American attitude, although Federal Reserve Bank authorities are helpful, as are French and Belgian Central Banks. Some individuals are taking steps to protect their interests, but Reichsbank considers that there is still little visible flight of capital.

¹ Not printed. In this telegram Mr. Newton reported that, if withdrawals from the Reichsbank continued long enough, a suspension of payments would obviously be necessary, but that the situation on June 15 was 'somewhat better'.

No. 58

Memorandum on the Present Crisis in Germany¹

[C 4140/11/18]

The present crisis, in Germany as well as elsewhere, arose out of financial and economic causes: the inflation of stock exchange speculation, the inflation of commodity prices which led to over-production, the attempts to keep prices high in defiance of economic principles and consequent still further over-production, the maladministration of gold owing to the disproportion of international indebtedness, the effects of which have become nearly unbearable owing to the abuse of the gold standard by France and the United States of America.

¹ This memorandum was written by Mr. Thelwall, Commercial Counsellor at H.M. Embassy, Berlin, and transmitted by Sir H. Rumbold to Mr. Sargent in a letter of June 11.

2. When a certain point in the disequilibrium created by the foregoing factors was reached, the illusory prosperity which they had conjured up collapsed and resulted, on the one hand, in a drop in the prices of primary materials and food-stuffs, and also of stock exchange values, and, on the other, in a nervousness which has caused a greater stagnation in the international flow of capital even than of goods.

3. Germany was caught by this general crisis at the moment when she was returning from an orgy of over-borrowing and over-spending which had followed the madness of inflation, to sane methods of finance (both publicly and privately), but before she had consolidated her position. The consequences have been plain for all to see. Having no reserves to draw on, her foreign indebtedness, not only reparations payments, but also the service of the loans she had taken up, lowered the purchasing power of the home market by preventing the accumulation of savings or at any rate their expenditure within the country, thus unemployment went up, and, in turn increased the burden falling upon those who remained employed and on the budgets of the Reich, States and districts. Foreign indebtedness, on the other hand, forced up German exports, which have kept a remarkably high level, and, as the home market grew worse, imports fell off, so that the foreign trade balance has for some time been favourable to Germany. But this is nothing like sufficient to compensate for the loss of internal purchases, and, moreover, there can be no doubt that, in order to sell abroad at all, German manufacturers have to cut prices very fine, and the profit is much less than would be earned on a similar volume of home business. In fact, the Germans would have one believe that they make no profit at all on it. Finally, the condition of the world in general makes it increasingly difficult to maintain exports, and they are actually on the downward grade.

4. The continuance of this state of affairs since the autumn of 1929 has produced two results in Germany, one financial, the other political. As regards the first, the good intentions which existed to rectify the mistakes of the previous years in public and private finance could not be realised. On the contrary, receipts in both cases decreased, old debts could neither be consolidated nor converted, and deficits grew. The revenue from taxation dwindled, new taxes further hampered enterprise, and only partially fulfilled the purpose for which they were imposed.

5. Politically, distress and discontent led to a partial disintegration of the moderate parties and the strengthening of the extremists at both ends. The German people had come to rely, unconsciously, on foreign co-operation to help them forward. The Dawes plan and the Young plan were joint actions by the leading nations of the world to put Germany on her feet and to enable her again to take a place commensurate with her size and economic importance. Locarno and her entry into the League of Nations tended in the same direction. But just when she had obtained her complete independence by the evacuation of the occupied territories, and was prepared to progress as a free nation in friendly commercial relations with the others, the world crisis produced such a state of international nervousness that each country has

become unhealthily self-centred, and though the idea of international co-operation is talked about more than ever, it is, temporarily, further from realisation. Germany, always over-sensitive to the attitude of others, reacted strongly to this comparative isolation, although it was not inspired by ill-will against her.

6. What was thus originally a loss of confidence on purely economic grounds has gradually developed into a situation of considerable political tension, internally and externally. The Germans are much to blame for the deterioration of their relations with their neighbours. From the Stahlhelm demonstrations and others, after the evacuation of the Rhineland to the launch of the 'Deutschland' and the proposed Austro-German Customs Union, they have been guilty of a series of provocative or tactless actions which have furnished welcome ammunition to the anti-German parties all over the world, and consequently it is harder for Governments to suggest helping Germany.

7. If the present economic situation in the world continues, and there are no indications of an improvement, the German Government will be faced by a clearly defined position in which the element of time plays an important part. The burdens which the latest emergency decree places upon the people will undoubtedly still further strengthen the Nazis and the Communists; the former because they think that a repudiation of reparations should have been declared instead, and the latter because they are the last political haven of the distressed and malcontents, and, moreover, this party also subscribe to the cancellation of international debts. The experiences of the last two years have taught us the unwisdom of counting upon relief coming from an early improvement in the general economic situation. It is, indeed, essential to be prepared for a continuance of the downward movement, and to attempt to portray the course of events which is likely to develop in such circumstances. On the assumption, then, that things continue to go downhill, we should be prepared for something like the following: There is no reason to believe that the new decree, any more than its predecessors, will bring permanent relief to the internal financial and industrial situation, because the decree and the budget are based on estimates which are not likely to be realised. When this becomes apparent (the date cannot of course even be guessed at), the German Government will not dare, even should they wish, to impose further sacrifices on the nation, and they will adopt the only alternative, which is to ask for a partial remission of indebtedness. A moratorium which merely postpones, but does not reduce, payments, would not serve the Government's purpose, though they would probably agree to an examination of Germany's condition by the committee provided for under the moratorium clauses of the Young plan. The German Government would take this step partly because they are convinced that the sums necessary for reparation payments can no longer be collected, even after the utmost limits of taxation and retrenchment have been reached, and partly because if they did not take it, they would be swept away by a Nazi-Nationalist Government which would. The incentives to Dr. Brüning to take such action seem great; he would become a national hero to whom

hardly any would dare to offer opposition, and his party and his Church would benefit correspondingly. By this I do not want to say that he is primarily ambitious for himself, but only that everything which must weigh with him most strongly is urging him in the same direction.

8. As to the probable effects of a request by the German Government for a revision of reparation, it seems as if such a move is expected in foreign centres, and is, therefore, being discounted in the sense that balances are already tending to be withdrawn, and, therefore, the effect of the shock which may come will be proportionately diminished. It is evident from the public utterances of German Ministers and from the statements of bankers, industrialists and others, that only the payments under the Young plan would form the subject of the German *démarche*, while every possible effort would be made to maintain the service of the Dawes and Young loans, and to meet all private foreign engagements. One cannot, however, feel too sure that this good intention will prove possible of realisation if a severe crisis of any duration should be precipitated. Although the German banks have undoubtedly less short-term foreign liabilities than they had, say, a year ago, their whole position is still very much affected thereby, and it is very doubtful whether they would be in a position to meet their ordinary commitments if they are cut off from the rest of the world for any length of time and simultaneously subjected to pressure internally, as too large a proportion of their resources are locked up in industrial participations and credits which would not be realisable. Of course, the foreign exchanges would move against the mark, but I feel certain that Dr. Luther would at all costs pursue a sound currency policy, and would not indulge in inflation or other malpractices. It is for consideration whether it is possible to convey any warning to British interests concerned, if, indeed, it be possible to do so without hastening a crisis which, if we cannot prevent, we wish to soften as much as possible.

BERLIN, June 8, 1931

No. 59

Sir E. Phipps (Vienna) to Mr. A. Henderson (Received June 24)

No. 234 [C 4380/673/3]

VIENNA, June 17, 1931

Sir,

I have the honour to acquaint you that when I saw the Vice-Chancellor, Minister for Foreign Affairs, on the occasion of his weekly reception yesterday morning, he enquired whether I had received any reply from you to the suggestion he had made, as reported in my despatch No. 205¹ of the 2nd instant, that you should invite an informal gathering of experts to meet in London to consider what action should be taken in order to find some satisfactory alternative to the Austro-German Customs Union.

¹ Not printed.

2. I replied in the negative. Dr. Schober then remarked that although of course he could not say so officially, he must admit, speaking as a private individual that it seemed to him that there could no longer be any question of putting the Customs Union plan into execution, even should the decision of the Hague Court be favourable, and he had so informed the Austrian Chancellor.

I have, etc.

ERIC PHIPPS

No. 60

Mr. Newton (Berlin) to Mr. A. Henderson (Received June 19)

No. 70 Telegraphic [C 4249/70/18]

BERLIN, June 18, 1931

Dr. Ritter, in conversation with financial adviser, states that, in his opinion, German Government may feel itself compelled to declare a moratorium in the course of the next few days. Cabinet has not yet taken a decision to this effect, and had hoped to defer action at least until after the visit of American Secretary of State. Effect of financial crisis had, however, been so grave that even Dr. Luther, who had hitherto opposed a moratorium, had changed his views and felt he could hold out no longer.

It was above all things necessary to secure effective discussion of Germany's difficulties at a very early date. It would be useless for American Secretary of State to visit Europe and receive different impressions in each capital. Speech of Mr. Castle¹ seemed an invitation to take action.

German Government would have welcomed discussion with other countries before acting, but no invitation came from France. Dr. Ritter hinted that such an invitation might even now postpone action.

There was a possibility of discussion in Geneva, but it did not seem likely to be fruitful. In fact, the only thing likely to bring about a useful discussion would be declaration of a moratorium.

Dr. Ritter was aware that Germany's short-term credit position was very weak, but believed further withdrawals would take place in any case. Uncertainty of what German Government would do was even more damaging than actual declaration of a moratorium could be.

Dr. Ritter listened with attention to forcibly expressed arguments that a moratorium would be a shock of the first magnitude to already most precarious position of credit both in Germany and in South-East Europe, but did not believe a moratorium would make this position worse, nor could he see such hope in possible conversations as would allow postponement of a step which, in his opinion, as in that of Herr Bülow, events since Chequers had rendered absolutely necessary. He returned with emphasis to the view now attributed to Dr. Luther.

¹ On June 13, Mr. Castle, United States Under-Secretary of State, had said publicly that, in the event of a serious threat of financial catastrophe in Germany, the United States Government might find it necessary, at least for a time, to change their attitude with regard to inter-governmental debts.

Financial adviser is of the opinion that, while Dr. Ritter spoke very seriously, there may be an element of personal belief under remarks, and that it would be premature to conclude that Cabinet will inevitably act in accordance therewith. Attitude ascribed to Dr. Luther is, however, most important and it might be possible to verify this from Mr. Norman.

No. 61

Mr. Newton (Berlin) to Mr. A. Henderson (Received June 19)

No. 71 Telegraphic [C 4260/70/18]

BERLIN, June 19, 1931

My immediately preceding telegram.¹

It is not easy to understand how a sudden declaration of a moratorium could be genuinely necessitated by present financial crisis, which, primarily affecting commercial and private credit, has been of an immediately urgent nature, and might now, in the absence of future shocks, be expected to abate rather than increase in severity, particularly in view of the settlement of the political crisis² and temporary rescue of the Kreditanstalt by the Bank of England.³ It must be remembered that the moratorium would not be effective for three months, and then would only apply to a limited class of foreign Government debts. In Germany, moreover, it is only regarded as a means to securing her real object—a drastic reduction of her reparation payments and as a remedy for her financial difficulties.

The dangers of the financial position of this country may have been exaggerated in the past, but it is certain that Germany is now convinced that only an early reduction of her reparation burden can save her from disaster. The demand for reparation revision has been much strengthened by the recent political crisis, and the German Government are endeavouring to find some way of following up the discussions at Chequers. The German Ambassadors from Paris, Rome, Washington and perhaps London are coming to Berlin in the near future. An invitation to similar discussions from the French would be warmly welcomed, and Dr. Ritter's remarks may, therefore, have been inspired by the arrival of Mr. Mellon⁴ in England and by the knowledge of your instructions to Paris (see your telegram No. 101⁵ to Lord Tyrrell).

On the other hand, a policy of forcing an issue would receive considerable support both in political and industrial circles. Dr. Ritter and Herr von Bülow, both very influential officials, were largely identified with the Austro-German Customs Union. It is possible that they may be inclined to exploit the present financial crisis in order to obtain an immediate declaration of a moratorium.

¹ No. 60.

² See No. 53, note 1.

³ See No. 51, page 74, note 1.

⁴ Mr. Mellon, United States Secretary of the Treasury, arrived in London on June 16 on an unofficial visit.

⁵ No. 55.

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 20)
No. 333 Telegraphic [C 4271/172/62]

WASHINGTON, June 20, 1931

Secretary of State sent for me this evening¹ to give message he had already given by telephone to Prime Minister.

President, since his return, had been busily sounding members of Congress on a scheme for dealing with international debts, and had met with a response justifying him in putting it forward.

Scheme contemplates suspension for one year of all inter-governmental claims and obligations, including reparations debts and relief debts, and excepting only debts owed to private citizens and banks (this would except that part of unconditional annuities which have been commercialised by France). It would include suspension of so-called relief debts raised to feed Austria in 1919 (funded in 1922 and refunded in 1930). It would exclude Austrian League of Nations debt.

Scheme can be brought into effect without convening Congress, and Secretary of State thinks it will be possible to realise it without calling any sort of international conference.

¹ i.e. the evening of June 19. This telephone message, which summarised Mr. Hoover's proposal, is printed in *Foreign Relations of the United States*, 1931, Vol. I, pp. 429-30. No record of the telephone conversation can be found in the Foreign Office archives.

No. 63

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 21)
No. 334 Telegraphic [C 4276/172/62]

WASHINGTON, June 20, 1931

My telegram No. 333.¹

I called on Ogden Mills² to-day at the Treasury and asked for further particulars as to scheme of suspension of International Debt payments. Scheme has not been worked out in detail but one growing factor is that consent of Congress leaders has been given only on condition that suspension shall apply to all debts within categories named in my telegram above referred to. Legislation to give effect to scheme will be necessary in December and will not be passed by Congress unless it fully meets this condition.

It is contemplated that assent of the Great Powers most concerned be obtained as soon as possible to broad principles of scheme, that assent of minor Powers be assumed for the moment and that elaborate details be worked out later including precise form which suspension should take whether by funding ...³ annuity over a series of years or by its postponement to the end of the term or by postponement of all future annuities for one year. He expects suspension should date from June 30 next. He thinks statement should be issued here at

¹ No. 62. ² United States Under-Secretary of the Treasury.

³ The text here is uncertain, and probably should read 'dropped'.

the earliest possible moment possibly on June 22. A message has been sent urgently to the French Government and he hopes to obtain their consent to broad principle of the scheme very soon.

See my immediately following telegram.

No. 64

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 21)

No. 335 Telegraphic [C 4277/172/62]

WASHINGTON, June 20, 1931

My immediately preceding telegram.¹

Mills was very alive to the great technical difficulties involved in the scheme. He would be very grateful for any analysis or appreciation Treasury might be able to put forward with regard to them. He named especially (a) effect of scheme on the budgetary position of various Governments; (b) would budgetary position of His Majesty's Government be affected, their getting only one remission in the present budgetary year? (c) how to deal with reparations in kind; (d) and with German payments to Belgium in respect of paper marks; (e) any other difficult technical point.

¹ No. 63.

No. 65

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 21)

No. 336 Telegraphic [C 4278/172/62]

WASHINGTON, June 20, 1931

My immediately preceding telegram.¹

The door is open for close co-operation between American and British Treasuries and Mills expressed disappointment at learning that there is no expert on Reparation in this Embassy especially as there is none in the United States Embassy in London. Possible meeting of experts of various Governments concerned to get to grips with the problems will have to be called soon but if this is delayed and negotiations at long range are likely for some considerable time it would probably be advisable for you to attach a competent expert to this Embassy for a while.

¹ No. 64.

No. 66

Mr. Newton (Berlin) to Mr. A. Henderson (Received June 22)

No. 76 Telegraphic [C 4288/172/62]

BERLIN, June 21, 1931

Washington telegram No. 333.¹

I have been informed in confidence by member of Ministry for Foreign Affairs that President Hoover intimated through United States Ambassador

¹ No. 62.

that it would be of assistance to him if he could show that he was acting in response to appeal from President Hindenburg.

Latter has accordingly sent telegram which will presumably be published but is at present confidential. It is something to the following effect, though I cannot give exact summary:—

Gravity of situation has moved him to take unusual step of addressing himself direct to President of the United States of America. Germany has exhausted every means of meeting her difficulties, but cannot do so without some external relief. The whole world is in distress. He believes, however, that it may be within President Hoover's power to take steps which would lead the world out of its economic tribulation.¹

¹ President von Hindenburg's concluding words were: 'You, Mr. President, as the representative of the great American people, are in a position to take the steps by which an immediate change in the situation threatening Germany and the rest of the world could be brought about.'

No. 67

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 21)
No. 340 Telegraphic [C 4290/172/62]

WASHINGTON, June 21, 1931

My telegram No. 334.¹

Mr. Castle telephoned to me last night that journalists had unfortunately learnt details of President's scheme and that latter to his regret was therefore compelled to issue his statement immediately. It has appeared in this morning's papers and its text must by now be in your hands. There was a note of apology in Mr. Castle's message and I inferred that President would have wished to have sounded foreign Governments before coming into the open but he has been hurried along irresistibly by circumstances.

Neither Secretary of State nor Mr. Mills asked me to ascertain your views on broad principle. Both spoke as if they felt sure that they could assume your consent.

Secretary of State informed French Ambassador of the scheme on Friday in the same terms as those he communicated to me (my telegram No. 333)². He was inclined to draw encouragement from manner in which Ambassador received the announcement. It was Mr. Mills who acting through financial adviser to the French Embassy here tried to get adherence of French Government to broad principle. I asked Mr. Mills if Italian Government had been sounded. He did not know. He assumed that State Department had done so but had not asked them to. Fact is that urgency of the situation has compelled United States Government to act without preliminary preparation that would have been desirable. Assuming that President's action is highly welcome to His Majesty's Government I should recommend urgently that they issue statement immediately to the effect that they subscribe wholeheartedly to broad

¹ No. 63.

² No. 62.

principle of the President's scheme and are prepared to co-operate towards elaboration of details. I greatly hope that you may bring this out to-morrow.¹

As to Dominions I have no doubt that United States Government and public will regard arrangements between them and London as matter of domestic concern but if they have to be consulted could you not send message to United States Government that His Majesty's Government in United Kingdom feel as described in preceding paragraphs and will express their definite views as soon as consultation with the Dominions has been completed.

¹ The text of Mr. Hoover's statement, which was issued on the evening of June 20, opened as follows: 'The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including the obligations of Governments held by private parties. Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign Governments to the American Government payable during the fiscal year beginning July next, conditional on a like postponement for one year of all payments on inter-governmental debts owing to the important creditor Powers.'

No. 68

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 22)
No. 341 Telegraphic [C 4291/172/62]

WASHINGTON, June 21, 1931

Until the United States Government should have committed themselves definitely, the Embassy have adopted a very cautious attitude about the debts scheme and have only made enquiries with a view to ascertaining its scope. It seems clear that the United States Government intend to include relief loans in suspense, and I feel sure that they will expect His Majesty's Government to follow the same line. For instance, Mr. Mills informed me that they proposed to include the loan made to Greece in 1928-29, which was fulfilment of relief loan promise made soon after the war.

No. 69

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 405 Telegraphic [C 4277/172/62]

FOREIGN OFFICE, June 22, 1931

Your telegrams Nos. 333, 334, 335, and 336.¹

You should inform the United States Administration that His Majesty's Government heartily welcome the initiative taken by the United States President, which is most opportune. The situation in Central Europe, and particularly in Germany, filled them with apprehension, and it would be unsafe to assume that the difficulty is past. His Majesty's Government therefore desire at once to express their appreciation of the President's proposal in its broad outline. We have not yet had time to examine the technical details of applica-

¹ Nos. 62-5.

tion referred to in your telegram No. 335, which will have to be looked into by the Treasury. But you might in the most friendly manner indicate one point which we in Europe see at once. The fact that the President's proposal is conditional on suspension of *all* inter-governmental obligations seems to us enormously to complicate matters, and we greatly fear that if this stipulation is insisted upon it must involve prolonged delays which may seriously affect the possibilities of maintaining stability in Germany. The essential difficulty of the world is the excessive payments required of Germany, which are threatening to cause a complete breakdown of her economy. The simple proposal which we understood United States Administration contemplated was the simultaneous suspension of German reparations and of inter-Allied war debt liabilities. We can readily and whole-heartedly co-operate to get this through. It is an ambitious enough programme, affecting all the principal countries of Europe and covering more than 90 per cent., or, if Dominion debts are excluded, 98 per cent., of total international debts. The other inter-governmental obligations are comparatively unimportant in amount, are in many cases analogous to commercial obligations, and their suspension would involve very complicated negotiations. For example, The Hague settlement with Hungary provides that the principal creditor Governments shall place all the Hungarian payments to certain funds, out of which Hungarian private nationals are to be compensated. Bulgarian payments similarly are practically all paid to Greece, while Greece pays service of bonds given to Bulgarian nationals in respect of properties left in Greece. The Relief and Reconstruction Loans have never been regarded by us as analogous to war debts, and any suspension would require assent of Governments and Legislatures of Holland, Denmark, Norway, Sweden and Switzerland, who have no direct interest in reparations, as well as Australia and Canada. Further, as stated in Vansittart's private telegram¹ of the 21st, the payments to United Kingdom by Dominions and India are domestic questions on which we cannot enter into undertakings with United States of America. You should point out these difficulties to the United States Administration, and urge them to avoid complications which must inevitably arise from stipulating for suspension of inter-governmental debts on too wide a basis. In our view, if results are to be obtained with the promptitude necessary to save the situation, it is almost imperative that the suspension should be defined as applying to all payments due by Germany under the Young plan and the subsidiary agreements excepting only the service of the Young Loan, and to all inter-Allied war debt payments due by European countries which are creditors of Germany.

Re your No. 336 of June 20. If the United States of America Treasury desire to consult with British Treasury we shall be glad to send over Leith-Ross at once for immediate consultation. But we should only do this if you think that such consultation would be of real utility, as the centre of activity may well be in Europe. Please wire reply to this.²

¹ Not printed.

² Mr. Bewley, of H.M. Treasury, went in place of Sir F. Leith-Ross to the United States for consultation.

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 22)
No. 343 Telegraphic [C 4326/172/62]

WASHINGTON, June 22, 1931

Your telegram No. 405.¹

I communicated its substance in writing to Secretary of State and to Under-Secretary of State this morning. My impression is that it is too late to vary American scheme materially.

There was a tendency to regard your suggestion to except relief loans as an effort to escape from a sacrifice. I maintained strongly that it was not such, but merely an effort to avoid disproportionate complication and delay. The Secretary of State said categorically that no scheme could pass Congress that involved sacrifices by the United States Government alone, which means that some will certainly be required of His Majesty's Government too.

¹ No. 69.

No. 71

Mr. Newton (Berlin) to Mr. A. Henderson (Received June 22)
No. 77 Telegraphic [C 4327/172/62]

BERLIN, June 22, 1931

Message of the President of the United States has caused a sweeping change in the stock exchange for June 22, and a sharp rise, amounting almost to a boom, has taken place.

The money market is also very much stronger, and on balance no foreign exchange has been lost. Reichsbank has issued a communiqué announcing that the policy of restriction begun on Saturday will be mitigated, although measures of caution are still required until the end of June pressure has been met.¹

German Government have officially informed the United States Government that they accept the President's offer. The press generally expresses delight.

¹ Mr. Newton had reported on June 20 that on this day the Reichsbank had lost over RM 50,000,000 of foreign exchange and had suspended the direct purchase of private discounts. On June 25 the Bank of England, the Bank of France, the Federal Reserve Bank of New York, and the Bank for International Settlements each provided the Reichsbank with a rediscount credit of \$25,000,000. These credits were repayable on July 16, but the Reichsbank was unable to commence repayment before March 1932. See also No. 184.

No. 72

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 410 Telegraphic [C 4347/172/62]

FOREIGN OFFICE, June 22, 1931

Your telegram No. 340 of June 21:¹ President Hoover's declaration.

In reply to question by Mr. Baldwin in House of Commons this afternoon,

¹ No. 67.

asking whether Prime Minister could state the attitude of His Majesty's Government to the declaration made by President Hoover on June 20, Mr. MacDonald replied as follows:—

'His Majesty's Government in the United Kingdom cordially welcome the striking declaration made by President Hoover. For their part they desire at once to state that they subscribe whole-heartedly to the principle of the President's proposal and are prepared to co-operate in the elaboration of details with a view to giving it practical effect without delay. The House will not expect me to say more at the present stage.'

No. 73

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 420 Telegraphic [C 4277/172/62]

FOREIGN OFFICE, *June 23, 1931*

Your telegram No. 335.¹

Any information or advice which we can give on the points you mention will certainly be placed at the disposal of the United States Government, and you should inform Mr. Mills accordingly.

The visit of Mr. Bewley was proposed in order to facilitate such co-operation. Please telegraph as early as possible regarding this suggestion.

¹ No. 64.

No. 74

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 421 Telegraphic [C 4326/172/62]

FOREIGN OFFICE, *June 23, 1931*

Your telegram No. 343.¹

Our telegram No. 405² was sent on Sunday before we had received full text of President Hoover's declaration. In view of that text, we fully appreciate that any modification is now impossible. So far, however, from trying 'to escape from a sacrifice' in regard to relief debts, His Majesty's Government are already considering what action they can most speedily take to get relief creditors to agree to joint and prompt suspension. Our desire was to concentrate on fundamentals—to wit, Germany—and to speed up procedure by eliminating relative unessentials. Such speed of action we had understood to be also the desire of the United States Government, and our explanation of the ingredients of the problem was intended to be helpful to them. Since, however, the explanation is obviously not so considered by the United States Government, we do not, of course, wish to dwell on it. In point of fact, we are well aware that the proposal of the United States Government will probably entail

¹ No. 70.

² No. 69.

for His Majesty's Government in the United Kingdom 'sacrifices' considerably more substantial than those of relief debts, and we are prepared for this. You should lose no time in making this explanation confidentially and verbally to the United States Government, with a view to removing any misapprehension that may have been left by your note.

No. 75

*Mr. A. Henderson to Earl Granville (Brussels)*¹

No. 397 [C 4391/172/62]

FOREIGN OFFICE, *June 23, 1931*

My Lord,

I transmit to your Excellency herewith a note by Sir Robert Vansittart recording a conversation he had with the Belgian Chargé d'Affaires on the 22nd June on the subject of Mr. Hoover's proposal for a moratorium.

I am, &c.

ARTHUR HENDERSON

ENCLOSURE IN No. 75

Note by Sir R. Vansittart

The Belgian Chargé d'Affaires and the Hungarian Minister came to see me successively this afternoon.

They were both full of questions about the American move in regard to debts and reparations. I referred them generally to the Prime Minister's statement in the House of Commons this afternoon. They both put the same question: Did we understand the American proposal to apply to unconditional as well as to conditional annuities? I replied that I did not see how the American proposal could possibly have any other meaning. The Belgian Chargé d'Affaires pointed out that his Government thus stood to lose 3½ millions per annum, which was a large item in the Belgian budget—600 million francs. I said that the American reply to that would probably be that they were suspending nearly 50 million sterling due to them, and that those European countries who could foresee no direct benefit to themselves must console themselves with the prospect that they would gain far more indirectly than they might be called upon to sacrifice directly. Our own attitude would be clear from the Prime Minister's statement. For years everybody had been saying that no solution of the tangle was possible because the key was in American hands and the Americans would not move. Now the unexpected had happened and had happened with unhopèd-for rapidity. Our general view was that it was up to everybody concerned to collaborate with the utmost goodwill and to put no obstacles in the way of a step which the United States had so often been blamed for not taking.

Both Prince de Croy and Baron Rubido-Zichy referred to the opposition

¹ A similar despatch was sent to Viscount Chilston, Budapest, No. 207, *mutatis mutandis*.

which might be anticipated in France, having regard to the fact that the inclusion of the unconditional annuities in the scheme would entail a sacrifice on her part of some 16 millions. They asked me if I knew whether the French had sent any reply to the United States. I said I believed that the French Ambassador in Washington had already been instructed to express general appreciation, and that I certainly hoped there would be no opposition on the part of France. I repeated that I understood the scheme to be an entirely comprehensive one, and that I thought it would be exceedingly difficult for anybody to raise opposition to it. That would certainly not be the attitude of His Majesty's Government in any circumstances.

They both questioned me as to what the next step would be, and I replied that I anticipated that the United States Government would now take steps to fill in with more detail the outline which we had already received. They enquired whether a world conference would be summoned. I said that I had no information on this point, but, as the initiative had come from the United States Government, it would be surely for them to decide in what form they wished the matter to be carried further—whether by conference or by the ordinary diplomatic channels.

No. 76

*Mr. A. Henderson to Lord Tyrrell (Paris)*¹

No. 1526 [C 4391/172/62]

FOREIGN OFFICE, June 23, 1931

I transmit to your Excellency herewith a note by Sir Robert Vansittart recording a conversation he had with the French Ambassador on the 22nd June, regarding Mr. Hoover's proposal for a moratorium. A copy of a note recording a conversation with the Belgian Chargé d'Affaires on the same subject is also enclosed.²

I am, &c.

ARTHUR HENDERSON

¹ Also to His Majesty's representatives at Washington, No. 902; Berlin, No. 671; and Vienna, No. 260, *mutatis mutandis*.

² Enclosure in No. 75.

ENCLOSURE IN No. 76

Note by Sir R. Vansittart

The French Ambassador came to see me this afternoon to talk about the attitude of his Government towards financial assistance to Austria.

He had in fact nothing to add to the information we have already received from Lord Tyrrell on this subject. He said, however, that he thought Austria would in any case have to address herself to the League; that the question of a new loan would arise and that would be the occasion for his Government to renew the condition they had laid down as to renunciation of the customs union; but that the condition might be put in a milder and more tactful form.

I said that the attitude of the French Government had seemed to me to show that they had failed to realise the full gravity of the situation in Austria at the time we had come to the rescue. The French Ambassador said that this might be so; French interests in Austria were small and they had perhaps not had full information. I said that the attitude of the French Government had seemed to me that of the stronger man making conditions with the weaker one while the house was on fire. I did not think these tactics were either legitimate or wise, and by persistence in them the French Government would certainly put themselves in the wrong. I very much hoped that his Government would see their way to revise their attitude in this respect, for they could only incur criticism and were, moreover, insisting upon conditions which no Austrian Government could accept and live.

The French Ambassador said that his Government were in a very difficult position. They were not at all a strong Government and would have a very difficult time with their legislature over the new American proposals. He referred to the probability that the proposals that now stood would involve a large sacrifice on the part of France from the budgetary point of view.

I spoke to him on the same lines as I had already adopted in speaking to the Belgian Chargé d'Affaires earlier in the afternoon. I earnestly hoped that he might therefore be wrong in anticipating difficulty from the French Chamber. I understood that the French Ambassador in Washington had already been instructed to express general appreciation to the United States Government. M. de Fleuriau confirmed this. I said we had done likewise, and referred him also to the Prime Minister's statement in the House of Commons this afternoon.¹ M. de Fleuriau said that he understood that acceptance of this far-reaching plan might also involve some financial sacrifice on our part. I said that I had not had time to go into the details of this, but the Prime Minister's statement in the House would show him what would be our attitude in any case, and I considered it would be very difficult, if not impossible, for any other Government to adopt any other attitude. M. de Fleuriau did not dissent from this. He expressed, however, the apprehension that, once this American proposal had been accepted and carried into effect, German payments—and for that matter American receipts—would never in practice be the same again. I said that however that might be—and it was impossible and unnecessary to forecast the future at this stage—I did not believe that any really intelligent man had considered that the present system could endure for a couple of generations. Most observers had probably estimated that the present system would continue for some time only because no change of heart or attitude was to be expected on the part of the United States. All that had happened was that that change of heart and attitude had come, and come with astonishing rapidity, and we could all only welcome it, especially if people would remember the widespread and freely vented criticism of the United States in the past.

I have no doubt that M. de Fleuriau is right in anticipating considerable difficulty among the French politicians and, for that matter, probably also in

¹ No. 80.

the French press, but I do not think *he* anticipates that it will be possible for his Government to stand out against the comprehensive nature of the American proposals.

R. V.

No. 77

Sir R. Graham (Rome) to Mr. A. Henderson (Received June 24)

No. 154 Telegraphic [C 4427/172/62]

ROME, June 24, 1931

Your telegram No. 165.¹

Following is text of Italian answer sent in telegram to Italian Ambassador, Washington, signed by Signor Mussolini:—

‘This necessitates considerable sacrifices on the part of Italy, but I, after mature reflection, have decided to give it my cordial acceptance in principle. I expect to convey later to American Government some observation on my part concerning an application, at once equitable and practical, as is certainly within the intention of President Hoover, of happy initiative of American Government. I hope initiative of President Hoover, of which high moral significance has been perfectly understood by Italian people, will inaugurate a period of most successful collaboration between nations, so much the more necessary in this moment of general difficulties and on eve of Disarmament Conference.’

¹ Not printed. In this telegram of June 23 Sir R. Graham was asked about the attitude of the Italian Government and Italian public opinion towards Mr. Hoover’s offer. The telegram also referred to a statement of ‘The Times’ correspondent in Rome that Italy might make a reservation to the effect that, in the altered circumstances, Germany must abandon the proposal for an Austro-German Customs Union.

No. 78

Sir R. Graham (Rome) to Mr. A. Henderson (Received June 24)

No. 155 Telegraphic [C 4414/172/62]

ROME, June 24, 1931

Your telegram No. 165.

I am seeing Minister for Foreign Affairs this evening and hope to obtain a definite indication. My United States colleague informs me in confidence that he saw Signor Grandi immediately after President Hoover’s offer, and that Signor Grandi, after saying that he had not yet discussed the matter with Signor Mussolini or his colleagues, remarked that he did not think Germany ought to be enabled by this concession to carry through customs union with Austria.

My United States colleague had reported this to Washington, where it had caused some perturbation, and he had been instructed to ascertain the true position in the same sense that you have instructed me, but he had not yet been able to do so.

‘Times’ report was probably based on inspired article by Gayda in ‘Giornale d’Italia’.

Earl Granville (Brussels) to Mr. A. Henderson (Received June 24)
No. 14 Telegraphic [C 4415/172/62]

BRUSSELS, June 24, 1931

I was able to see Minister for Foreign Affairs this morning.

The Minister, after insisting that he was speaking to me as His Majesty's Ambassador, quite frankly and openly, but confidentially, said that the Belgian Government appreciated fully the action of Mr. Hoover, which they hoped would have a very good effect in calming the rising panic throughout Europe, and especially because it showed that United States realised at last their interdependence with Europe. But from the practical Belgian point of view they were extremely uneasy. There could be no question, in his opinion, of refusing Mr. Hoover's offer, but he had no idea yet of terms in which he should reply. If all German payments to Belgium were to cease, it would make a disastrous hole in the Belgian budget, and he did not see how they were to fill it, as they could not impose very much extra taxation. If by any chance France succeeded in getting 'unconditional' payments exempted, Belgium would expect France to carry out the more or less secret agreement of last year and hand over the contemplated percentage to Belgium. The Minister also hoped, but without much confidence, that the marks agreement with Germany would be considered as something apart, but he thought it best not to raise that question yet. The Minister insisted on the fact that everybody had always agreed that Belgium was in a special position in view of Germany's fierce attack in breach of her treaty engagements to respect Belgian neutrality, and Count Brockdorff's solemn undertaking at Versailles that Germany also recognised this and was prepared to repair the damage done to Belgium.

No. 80

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 423 Telegraphic [C 4397/172/62]

FOREIGN OFFICE, June 24, 1931

You should communicate at once to the United States Government the following statement which will be made by the Chancellor of the Exchequer in the House of Commons this afternoon:—

'As my right honourable friend the Prime Minister informed the House on the 22nd instant, "His Majesty's Government in the United Kingdom subscribe whole-heartedly to the principle of President Hoover's proposal and are prepared to co-operate in the elaboration of details with a view to giving it practical effect without delay"; and with the permission of the House I should like to take this opportunity to explain the steps which we have decided to take for this purpose.

'The more consideration we give to the President's declaration, the more it seems to us that, having regard particularly to the history of the matter, that declaration constitutes a very great gesture on the part of the United States of America, and it will be a thousand pities if Europe does not respond to it in the same spirit. The beneficial effect of the proposal may be lost unless steps are taken by all the countries concerned to give it prompt and practical effect.

'This is particularly the case as regards Germany, which, after all, is the essential difficulty. We agree with the view expressed by the United States Government that there is no time for a conference. A more prompt method must be found for putting into operation the proposal of the United States Government for a complete and immediate suspension of German payments to the creditor Governments.

'The procedure which we would favour is that the creditor Governments should forthwith notify the Bank for International Settlements that they agree to the proposal for the suspension for one year of all the German payments due to them. The decision, of course, does not rest with us alone, and we are awaiting the views of the other creditor Governments; but we hope that it may be possible to secure agreement on these lines as soon as possible.

'President Hoover's proposal applies, however, to all "inter-governmental debts, reparations and relief debts". His Majesty's Government for their part accept this proposal in the spirit as well as the letter. They will accordingly be ready to suspend for one year all such inter-governmental debts due to them as soon as President Hoover's proposal has been generally accepted, and in the meantime as from the 1st proximo they will refrain from claiming instalments that may fall due. As regards the relief debts, His Majesty's Government are at once taking steps to inform the other European Governments which hold relief bonds of their action to invite them to co-operate.

'Finally, although His Majesty's Government in the United Kingdom do not regard President Hoover's proposal as directly affecting the war obligations of the Dominions and of India to the United Kingdom, which are a matter for discussion and settlement between those of His Majesty's Governments concerned, we felt that we should be interpreting the wishes of the country in deciding freely to offer to the Dominions and India the same concession as is proposed for foreign countries under the same conditions.

'Accordingly, when inviting the assent of the Dominion Governments and the Government of India to the suspension of the German payments so far as regards the share to which they are entitled, we intimated that on the same principle we would readily give them the option of postponing the whole amount of their war debt payments to the United Kingdom for the period of twelve months from the 1st July, 1931, if they so desire.

'These proposals will involve a loss to the current budget which may reach, approximately, £11 million. This is a serious sacrifice for the tax-

payers of this country, upon whom such heavy calls have already been made, but we hope that the step which we are taking in co-operation with the United States will be more than justified by the help it will give in reviving confidence and prosperity.'

(Repeated to Berlin, No. 87; Vienna, No. 47; Rome, No. 167; Brussels, No. 31. Copy to Paris, No. 127 (by bag).)

No. 81

Lord Tyrrell (Paris) to Mr. A. Henderson (Received June 25)

Unnumbered Telegraphic: by bag [C 4425/172/62]

PARIS, June 24, 1931

Ministry for Foreign Affairs inform me in strictest confidence that reply to United States Government was on lines forecast in my private telegram of June 22 and my telegram No. 129 of to-day;¹ that is to say, France will waive use of conditional and unconditional annuity for one year, but French share of unconditional annuity will be credited to France by Bank of International Settlements, who will make amount of share available for financial assistance to Germany or elsewhere in Central Europe as Bank may think best. At end of note there is a brief reference to the other conditions which, as well as the waiving of the debt and reparation payments, are necessary for the restoration of world confidence and therefore of world prosperity. French Government express hope, which they feel sure is shared by United States Government, that in future, and in return for advantages accorded them, beneficiaries of United States Government's proposal will faithfully observe the treaties.

2. I have been specially asked not to allow this brief summary of the French note to become public before the afternoon of June 26, when the President of the Council will read the whole note to the Chamber and an important debate will ensue.

3. My American colleague tells me that he has impressed upon his President that a solid Chamber is behind the French reply as regards unconditional payments, and that, provided the principle of their payment is maintained, the French Government are quite agreeable to the payments being returned to the Germans; in other words, the process would amount to a book transaction.

4. I would call your attention to the manifesto of the Socialist Executive of to-day in favour of maintaining the principle of unconditional payments.

5. The American Ambassador also told me that the offer of the German Chancellor to meet French Ministers for purposes of discussion was favourably considered by the French Cabinet this morning, and M. Briand was requested to inform the German Ambassador that the offer was very welcome.

¹ Not printed.

Sir R. Graham (Rome) to Mr. A. Henderson (Received June 25)

No. 157 Telegraphic [C 4462/172/62]

ROME, June 24, 1931

Your telegram No. 165, paragraph 2.¹

Minister for Foreign Affairs assures me that Italy has made no such reservation, and does not intend to establish any connexion between American offer and Austro-German Customs Union. Impression to the contrary may have been caused by somewhat misleading information given recently by Official Press Bureau to foreign correspondents, and steps have been taken to counteract it.

Minister for Foreign Affairs and Signor Mussolini considered that weight of advantages offered by President Hoover's proposal, viz., alleviation of world financial crisis, the virtual connexion of reparations and war debts, the abandonment by United States of America of their isolation and their reappearance in European affairs, more than compensated for any disadvantages and technical difficulties, although these certainly existed.

Pecuniary sacrifice entailed was not negligible for a poor country like Italy in her present circumstances, and there would be serious complications as regards war debts of smaller Powers. The above Signor Grandi faced with a certain equanimity, but he must admit that possible political implications involved caused him very serious preoccupation. Germany was obtaining at one stroke and for nothing the advantages which had been dangled in front of her at Chequers as a possibility in two years' time. Italian Government had welcomed *rapprochement* indicated by Chequers meeting, but his Excellency wondered whether British Government quite appreciated how immensely strong Germany's position would be now.

It was evident that henceforward Germany would be able to come to assistance of Austria, Hungary, Roumania, &c., and now that she had made clear her policy of penetration towards south-east, Italian Government could not view future without anxiety. Germany had come to the world as a beggar, hat in hand, but in a year's time she might appear in a very different guise. He doubted whether Germany's financial position, on which she had so successfully played, was as bad as she made out or, indeed, worse than that of Italy.

Without in any way connecting American proposal and Austro-German Customs Union or 'Anschluss,' Signor Grandi thought, as plea for necessity of customs union had been based on financial difficulties, now that these were relieved, it would be a graceful act on German's part to proceed no further with the project. He and all thinking Italians must view with alarm idea of Germans at Innsbruck with future of Trieste wholly dependent upon their goodwill. All that Italy wished was to be able to steer an independent course in collaboration with Great Britain for general good, but she feared to be placed in the position of being forced to choose between a western or eastern neighbour, both bent on hegemony in Europe.

¹ See No. 77, note 1.

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¹ See No. 77, note 1.

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 25)
No. 351 Telegraphic [C 4455/172/62]

WASHINGTON, June 24, 1931

I asked Secretary of State this morning for information about French difficulty. He said that French reply had arrived which contemplated deposit of German annuities due to France in the Bank of International Settlements to be used for the relief of Germany and other States of Southern and Eastern Europe. He presumed this included Powers of Little *Entente*. French reply had not yet been studied, but he hoped it might be possible to work out a counter-project based on it. Principal point in the mind of United States Government was to secure that relief afforded by suspension should accrue to Germany where it was most required.

Secretary of State said that President had yesterday [¹? sent¹] a very stiff telegram to Paris which he had not been able to revise before despatch and which he said 'had rather misfired'. President, he said, was very impatient with French Government, and he himself was having some difficulty in restraining him.

Italian Government's first reply had, as reported in the press, attached conditions as to 'Anschluss' to their acceptance. He had spoken very seriously to the Italian Ambassador about this, and later communication from Rome which came from Signor Mussolini rather than Signor Grandi allowed the condition to drop into the background.

¹ The text here is uncertain.

No. 84

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 25)
No. 352 Telegraphic [C 4456/172/62]

WASHINGTON, June 24, 1931

Your telegram No. 421.¹

I informed Secretary of State of its contents this morning orally and informally.

I do not consider my communication to State Department of your telegram No. 405² really caused any misapprehension or was taken as otherwise than as a desire on the part of His Majesty's Government to be helpful. It is possible that remarks of Secretary of State and Under-Secretary of State indicating necessity for sacrifices by His Majesty's Government may have been made under a misconception of your motives, and if so I corrected it immediately. But it is even more likely that they thought this a good opportunity of uttering a warning which they anyhow intended to make to the effect that sacrifices must be shared so that they could meet eventual criticism here as to proper repartition of any sacrifices.

¹ No. 74.

² No. 69.

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 25)
No. 353 Telegraphic [C 4426/172/62]

WASHINGTON, June 24, 1931

Your telegram No. 423.¹

I communicated Chancellor's statement to Under-Secretary of State to-day. He expressed highest appreciation of action of His Majesty's Government, which he said would be most gratifying to the President.

¹ No. 80.

No. 86

Sir R. Graham (Rome) to Mr. A. Henderson (Received June 26)
No. 159 Telegraphic [C 4476/172/62]

ROME, June 25, 1931

Following is translation of telegram sent yesterday to Italian Ambassador at Washington:—

'You may assure United States Government that Italy's complete and cordial adhesion to President Hoover's proposal is not subject to reserves of a political character. Approval referred to will have regard merely to manner of realising American initiative.

'As regards question of Austro-German agreement, it is clear that a large section of Italian public opinion, realising the disadvantages and dangers, both economic and political, which this projected union offers for Italy and Europe, is apprehensive lest realisation of that project should be rendered easier for a Germany liberated from financial burdens and, alone of all countries, to have a budget without a serious adverse balance.

'These preoccupations and apprehensions have been echoed by various foreign journalists, who have gone so far as to speak of an Italian reservation.

'But Italian Government, fully realising that President Hoover's initiative, which is of an economic and world-wide nature, cannot be coupled with and subordinated to European political problems, however important, have never considered formulating reserves of this character.

'Your Excellency will therefore take steps in the best and most opportune manner to put in its true light our acceptance, which implies sacrifices for Italy, already in a situation of serious inferiority as a result of peace treaties and especially at present time, but which was prompt and spontaneous and fully consistent with policy pursued since 1923 by head of Fascist Government and has in every respect taken account of exigency of the moment and of moral and practical importance of American gesture.

'It will further be useful for your Excellency to emphasise that President Hoover's initiative and Fascist Government's adhesion have received general and favourable welcome in Italian press, which gives it greatest and most sympathetic prominence.'

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 442 Telegraphic [C 4455/172/62]

FOREIGN OFFICE, June 26, 1931

Your telegram No. 351¹ of June 24: Reparations, last paragraph.

We entirely agree with view of United States Government. Any attempt to attach political conditions to acceptance of offer would be regrettable and apt to cause delay in operation of American proposal. Statement in House of Commons will have shown full measure of our desire to collaborate.

At the same time, for your own information and guidance, I draw attention to following considerations:—

It will, I think, be an unpopular idea in Europe and increasingly as first enthusiasm cools and emergency recedes, that Germany should receive all and give nothing. There are already signs of this view, and it is not without justification.

The complicated task of the United States of America might possibly be lightened and maximum benefit derived from their initiative if they took some account of it. Direct financial sacrifice by Germany is of course impossible, but it would certainly make it easier for Europe as a whole to accept and work out Mr. Hoover's scheme wholeheartedly and unreservedly if it became apparent that Germany, too, is in fairness willing to contribute something to restoration of international confidence so generously initiated by United States Government.

Among counterparts which Germany might make in the common cause, following suggest themselves:—

1. She should take adequate action to meet the criticisms long and widely made in Europe—and revived in regard to the emergency decree—that no economies have been affected in the *military* budget, which for long time past has been suspect owing to its swollen estimates. It would also enable the question to be raised as to whether in present circumstances it is justifiable to spend money on further pocket battleships².

2. As regards customs union, as you know, His Majesty's Government have adopted an impartial attitude and are not taking part in the proceedings at the Permanent Court. It seems certain, however, that the project would continue to prove a disturbing factor and so impede the restoration of confidence which is economically so vital. Both the United States Government and His Majesty's Government have disapproved of the recent attempt of the French Government to use Austria's financial necessity as a means of extorting an undertaking to abandon the customs union. These methods seemed both to us and to the United States of America illegitimate. The same method

¹ No. 83.

² For these ships, see Vol. I of this series, p. 203, note 7, and pp. 543-7. The first ship of the class (finally named *Deutschland* and previously designated *Ersatz-Preussen*) was launched on May 19, 1932. Credits for a second ship (*Ersatz-Lothringen*) were voted by the Reichstag on March 20.

would be equally illegitimate and impracticable in the case of Germany. But it would not be unreasonable to hope that Germany might, without any humiliating renunciation, such as was required of Austria, allow the customs union to drop, as a token of her appreciation of the immense service which Mr. Hoover has rendered to her, and of her desire to collaborate in and carry forward the gesture of appeasement. The origin of the customs union, so far as Germany was concerned, was twofold: (1) The need of the Brüning Government for striking action abroad in order to strengthen its position at home; (2) the need of economic alleviation. Both these desiderata are likely to be fulfilled by the United States proposal on a scale far greater than could ever have been achieved by the customs union, which would be now both unnecessary and disturbing to the continuance of the process initiated by the gesture of the United States of America. This is our real interest in the matter; our economic interests are not much affected.

3. Brüning's broadcast statement¹ of June 23 will do much to attenuate fear that Germany might, in view of present relief, radically modify emergency decree. But a warning as to disastrous effect on impartial opinion of such modification would not be out of place, and especially of any attempt to reduce the total financial yield of the emergency decree, as distinct from possible changes in the distribution of its burdens.

The above line of thought is paralleled by views of Grandi, as reported in first part of last paragraph of Rome telegram No. 157² to Foreign Office. See also Rome telegram No. 159³ to Foreign Office.

There is no objection to your discussing these considerations verbally with the State Department if suitable opportunity arises.

¹ In this statement Dr. Brüning affirmed that the German Government were ready to redress hardships in connexion with the emergency decree of June 6 but that they were not in a position to allow any interference with the total financial result of the decree. Dr. Brüning also said that, once agreement had been reached about Mr. Hoover's proposal, it would be easier 'in a frank discussion to clear the way' for practical Franco-German co-operation. He suggested a preparatory conversation between the two countries on lines similar to those of the Anglo-German meeting at Chequers.

² No. 82.

³ No. 86.

No. 88

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 446 Telegraphic [C 4516/172/62]

FOREIGN OFFICE, *June 27, 1931*

Your telegram No. 369¹ of June 26: French reservations to Hoover proposal. Following are Treasury views:—

French reservation about payment of unconditional annuities seems to the Treasury radically to alter proposal of President Hoover, which His Majesty's Government accepted and have offered to carry into effect.

¹ Not printed. This telegram reported that the State Department was 'particularly anxious to learn with the least possible delay' the views of the Treasury on the French proposal with regard to the unconditional annuities.

If Germany has to pay unconditional annuities, in any form, she will *not* obtain the relief required for the situation and the effect in Berlin will be very dangerous. The fact of the case is that Germany cannot pay. London is financing the Reichsbank and must withdraw money if the complete suspension of reparation payments is not accepted unreservedly.

In view of Treasury, the French proposal that the payments should be lent by the Bank for International Settlements to Germany or other countries is no good. In so far as money is lent to other countries, obviously Germany gets no relief at all. If it is re-lent to Germany, Germany only gets a short-term credit, and she will have to pay at end of the year *both* the postponed payments *and* the full payment for next year, which is obviously impossible. France will therefore have Germany at her mercy.

France's loss is exaggerated by French press, which loses sight of the fact that under existing agreements, if Germany paid full unconditional annuities but adopted moratorium for conditional payments under Young plan, France would have to pay a considerable part of her war debts, which she has not the right to suspend, and also pay over the sums due to the other creditor Governments out of the French Guarantee Fund, so that she would only retain a comparatively small proportion of the unconditional annuities for her own budget.

But as Germany cannot in any case pay, the suspension of payments is mere recognition of a necessity. The choice for France is not between getting full payment and no payment, but between suspension of all payments and continuing to meet her debt liabilities while not receiving payments from Germany.

Further, the Treasury point out that any distinction between the conditional and unconditional annuities must create a very awkward precedent for the future. It admits right of France to draw the unconditional payments from Germany even if debt payments are suspended. The implications such a precedent may involve for the United States and for this country are obvious and need not be emphasised.

If any special arrangement were adopted for unconditional annuities, it would clearly raise difficulties as regards other inter-governmental obligations, particularly relief debts. At meeting of Relief Bonds Committee yesterday Dutch representative stated that his Government's acceptance of suspension was conditional on suspension being applied to all inter-governmental obligations, including the unconditional annuities.

The only certain way to save the situation is to get the French to accept the President's proposal for suspension of all German payments for one year. The French could be told that this suspension is an emergency measure, and that, at the end of the year, the full rights of all creditor Powers in respect both of the conditional and unconditional annuities revive in full.

The Treasury realise that insistence on complete suspension will perhaps make an immediate settlement more difficult, but in their considered view acceptance of French reservations would at best only postpone the crisis and might well make it more difficult to solve in the long run. The only effective

course is to tackle the difficulty made by the French firmly and at once, and get it over.

Deliveries in kind are dealt with in my telegram No. 445.¹

(Repeated to Paris, No. 142 (by bag).)

¹ Not printed. In this telegram Sir R. Lindsay was instructed that His Majesty's Government favoured the suspension of deliveries in kind. If, however, such deliveries were continued, the recipient Governments should pay in cash for deliveries in kind after the exhaustion of the balances available to them out of German payments already made. The cash payments should be applied to a fund for distribution between all the Creditor Powers.

No. 89

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 28)

No. 372 Telegraphic [C 4535/172/62]

WASHINGTON, June 27, 1931

Your telegram No. 442.¹

I gave substance of this to-day orally, but fully, to Acting Secretary of State.

He said that he fully agreed with your diagnosis in general, and especially with the three special considerations set forth. United States Ambassador at Berlin had reported to-day that if customs union could be got out of the way a great deal would have been done to restore confidence. He thought possibly, if His Majesty's Government were to make representations at Berlin in the sense of your telegram under reference, it might be possible for United States Ambassador to take an opportunity of intimating informally to German Government concurrence of United States Government in the views expressed. I said that, though I was not instructed to say so, it was quite clear His Majesty's Government hoped for more than that.

Later, after consultation with President, he informed me that, owing to traditional attitude of United States Government in such matters, to the domestic political difficulties it might cause, and to the stand they had taken in regard to Austria with the French and Italian Governments, it would be impossible to make any representations at Berlin in the sense of your telegram under reference. If, however, His Majesty's Government cared to make such representations, basing them, perhaps, on the desire to help United States Government in its efforts to extricate Germany from her difficulties, then United States Ambassador at Berlin, who would be informed of the case, would be authorised, if approached by German Government, to intimate that the views expressed by His Majesty's Government were shared by United States Government.

¹ No. 87.

No. 90

Lord Tyrrell (Paris) to Mr. A. Henderson (Received June 29)

No. 133 Telegraphic En clair: By post [C 4548/172/62]

PARIS, June 28, 1931

Chamber of Deputies adopted by 386 votes against 189, at 6.30 A.M. on June 27, after an all-night sitting, following resolution: 'Chamber approving

French Government's reply to proposal of President of United States of America, relies on Government to ensure both intangibility of unconditional annuities and requirements of a policy of peace and economic co-operation.'

2. Government supporters included all but some 35 members of Right and Right Centre groups, about two-thirds of Left Centre, 7 Socialist Radicals and 107 out of 109 Socialists. About 30 Right and Right Centre Deputies, one-third of Left Centre and 98 out of 110 Socialist Radicals voted in the minority. Radical attitude, though M. Herriot tried unsuccessfully to justify it on plea that Hoover proposal dealt a mortal blow at Young plan and at future reparation payments, was dictated by internal political reasons. It was just as firm and in appearance more uncompromising than that of Government supporters. Socialists were influenced by the counsel of Second International as well as by fact that, on this occasion at least, Government's defeat could scarcely have been followed by its replacement by an Administration relying on 'Cartel des Gauches.' In his speech M. Blum made it clear that he insisted on payment of unconditional annuity because it represented payment for material damage suffered by France. It was not a 'tribute' paid by the vanquished but a payment made by 'party responsible for destruction'.

3. There was note of bitterness throughout debate, and in present temper of Chamber and country no Government could, without some serious guarantee, abandon unconditional annuity and live. Speakers of all shades of opinion claimed that a moratorium was, in itself, insufficient to save Germany, since her difficulties were not primarily of a budgetary character. 'Le "Deutschland"', c'est nous qu'il payons', declared M. Herriot. All were agreed that abandonment of unconditional annuity was end of reparation. Several stated that acceptance of the Hoover proposal as it stood would open door to other and graver claims, including territorial changes.

4. Summaries of speeches of Finance Minister¹ and President of Council are contained in my two immediately following telegrams, and official text of speeches in my despatch No. 707² of to-night.

¹ M. Flandin.

² Not printed.

No. 91

Lord Tyrrell (Paris) to Mr. A. Henderson (Received June 29)

No. 135 Telegraphic En clair: By bag [C 4550/172/62]

PARIS, June 28, 1931

My two immediately preceding telegrams.¹

At end of debate President of Council referred to recent radio message of German Chancellor in which latter appealed for co-operation with France.² President of Council stated that German Ambassador had been informed that the 'French Government wished MM. Brüning and Curtius to come to Paris at earliest possible moment'.

¹ The first of these telegrams is No. 90. The second telegram (not printed) gave a summary of M. Flandin's speech.

² See No. 87, note 1 on page 105.

2. He reminded the Chamber that ever since the war France had loyally practised a policy of co-operation, that this was not the moment to abandon that policy, and that Germany was passing through a difficult moment. 'She will find with us, subject to certain conditions, the assistance which she requires to enable her to restore the situation', but for this 'it is necessary that the atmosphere be cleared. Manifestations like those of the Steel Helmets are not consistent with the requests which Germany is addressing to Great Britain, America and ourselves. If we are to help Germany, it will be under conditions. We do not intend that the 10 milliards of which the German budget is about to be free shall be used against us or against the peace of the world. We do not intend that with our sacred reparation money Germany shall be able to increase her armaments or practise a policy of dumping. . . . We shall tell M. Brüning that to-night's sitting of the Chamber must be a lesson for everyone, for us and for Germany. It is not possible to play indefinitely with the feeling of France.'

No. 92

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 29)
No. 374 Telegraphic [C 4553/172/62]

WASHINGTON, June 28, 1931

Your telegram No. 446.¹

Both Castle and Mills concur in the Treasury statement of views which was communicated this morning to the President. Latter sent word that he thought it would be very useful if His Majesty's Government could see their way to express their views with equal directness to French Government.

¹ No. 88.

No. 93

Mr. A. Henderson to Mr. Newton (Berlin)
No. 112 Telegraphic [C 4535/172/62]

FOREIGN OFFICE, June 29, 1931

Sir R. Lindsay's telegram No. 372 of June 27.¹

There is no question but that the Austro-German Customs Union still constitutes an especially disturbing factor in the general situation.

I consider that the time has come to impress this upon the German Government, emphasising the point that they could make no better contribution to the restoration of international confidence than by getting this contentious question out of the way.

I should be glad if you would speak to Herr Curtius accordingly, explaining that your remarks, though made under my instructions, will, I hope, be received as friendly advice and not as if they were formal representations.

I am informing United States Government of above instructions with a view to their instructing United States Ambassador in Berlin, if approached

¹ No. 89.

by the German Government, to inform German Government that views emphasised by His Majesty's Government were shared by the United States Government.

Before making your representations to Herr Curtius you should make sure United States Ambassador has been duly instructed by his Government.

No. 94

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 449 Telegraphic [C 4535/172/62]

FOREIGN OFFICE, *June 29, 1931*

Your telegram No. 372¹ and my telegram No. 112² to Berlin.

I propose to confine representation to German Government for the present to question of Austro-German Customs Union.

Please inform State Department, and ask them to send instructions adumbrated in the last sentence of your telegram No. 372.

¹ No. 89.

² No. 93.

No. 95

Sir R. Lindsay (Washington) to Mr. A. Henderson

(Received June 30, 10.30 a.m.)

No. 381 Telegraphic [C 4606/172/62]

WASHINGTON, *June 30, 1931, 1.57 a.m.*

Acting Secretary of State tells me that in view of the situation thus created¹ the President wanted immediately to put into execution his scheme for repeating his offer to suspend separately and individually to each Government concerned. This scheme was disclosed here to the French Ambassador on June 27.

Acting Secretary of State deprecated the suggestion. He pointed out that it was rather a leap in the dark, and that it might be inadvisable to isolate the French in such a manner. Scheme was dropped for the time being, and tentatively another was evolved to the following effect: that United States Government should declare that they repeat and maintain their offer already stated, but that as difficulties have arisen with regard to repayment of postponed annuity they suggest that the European Powers get together and decide for themselves how this obstacle can be surmounted without impairing the conditions laid down in the original United States offer.

This scheme is still quite tentative, but I need hardly point out how much more it is in consonance with traditional American attitude on such questions.

¹ On June 29 the negotiations in Paris between Mr. Mellon, on behalf of the United States Government, and the French Government had reached a deadlock (i) on the mode of repayment of the postponed annuity, (ii) on the question whether, in the event of the declaration by Germany of a moratorium, the German Government, and not the French Government, should be obliged to provide the guarantee fund of RM 500,000,000 to be deposited with the Bank for International Settlements.

No. 96

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 30)
No. 382 Telegraphic [C 4607/172/62]

WASHINGTON, June 29, 1931

Acting Secretary of State informs me that the Belgian Government have accepted American scheme unconditionally.

In addition, following have accepted likewise: Czechoslovakia, Poland, Italy, Austria, and Germany. Following have accepted in principle: Japan and Greece. No definite answer yet from Yugoslavia and Roumania.

No. 97

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received June 30, 9.0 a.m.)
No. 383 Telegraphic [C 4604/172/62]

WASHINGTON, June 30, 1931, 1.22 a.m.

Your telegram No. 449¹ of June 29.

United States Ambassador at Berlin already has instructions. He has replied expressing opinion that if His Majesty's Government make representations in regard to Customs Union they will probably have the desired effect.

Meanwhile, he has been instructed already to make representations in regard to inadvisability of proceeding with construction of the battleships.

¹ No. 94.

No. 98

Mr. Newton (Berlin) to Mr. A. Henderson (Received June 30)
No. 87 Telegraphic [C 4669/172/62]

BERLIN, June 30, 1931

Your telegram No. 112.¹

After ascertaining that United States Ambassador would duly support my representations if approached by the Germans, I spoke this afternoon to Minister for Foreign Affairs in the sense instructed.

Dr. Curtius said that he thought it best to refrain from immediate comment, which might, I inferred, have been unfavourable. He mentioned, however, that according to his latest information from Paris difficulties in the way of acceptance of Hoover scheme were financial.

(Repeated to Paris.)

¹ No. 93.

Mr. Newton (Berlin) to Mr. A. Henderson (Received June 30, 9.0 p.m.)
No. 88 Telegraphic [C 4670/172/62]

BERLIN, June 30, 1931, 7.37 p.m.

My immediately preceding telegram.¹

United States Ambassador anticipated my request for appointment by himself asking me to call. He said that his information from Paris was that situation was very serious and that negotiations were on the verge of a breakdown. The consequences directly would of course be disastrous for all concerned. The French Government were, he understood, proving quite unyielding and in fact attempting to dictate terms and assume leadership in regard to the proposal of President Hoover. United States Ambassador was about to see the Minister for Foreign Affairs to impress upon him the gravity of the situation and wished to see me first, as he had received a telegram giving the substance of conversation referred to by His Majesty's Ambassador in Washington in his telegram to you No. 372,² and thought I might have instructions to make representations which would help.

I explained to him the nature of my instructions and their dependence on him. There was of course hardly time for him to have received specific instructions referred to in the last part of your telegram No. 112, but he had already been informed that the United States Government would not wish to discourage proposed representations, and he was so anxious that they should be made promptly that he intimated that he would take the responsibility of interpreting his authority to cover discrepancy between 'not discouraged' and 'share'.

In the circumstances I thought it justifiable and desirable to act without further delay.

(Repeated to Paris).

¹ No. 98.

² No. 89.

No. 100

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 451 Telegraphic [C 4708/172/62]

FOREIGN OFFICE, June 30, 1931, 10 p.m.

Leith-Ross and French Treasury official¹ discussed situation yesterday. Latter emphasised that French realised gravity of situation and were prepared to make far-reaching concessions in Young plan. But they were afraid that under President's proposal war debts would have to be paid in full next year, whereas once reparations were completely suspended it would be impossible to get Germany to resume payments. For this reason they were insistent on maintaining principle of payment of unconditional annuities, but they were

¹ M. Bizot.

prepared to re-lend payments to Germany for a period of years under conditions to be agreed. Some means would also have to be found for excluding Hungarian and Bulgarian payments, which no one wanted to suspend.

Leith-Ross explained the Treasury views as stated in telegram No. 446,¹ and urged that all the payments for the current year must be suspended and all the annuities under the Young plan pushed on a year. If this principle were accepted he thought that some pure book-keeping arrangement might be made which might satisfy the susceptibilities of the French Chamber provided that no effective German payments were made this year. He handed French official a formula of which text is given in my telegram immediately following.

Latter returned to Paris last night with this formula. This morning, after speaking to M. Flandin, he telephoned that he was examining this formula, but that United States Government had accepted repayment with interest over twenty-five years.

You should inform United States Treasury orally of this conversation.

¹ No. 38.

No. 101

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 452 Telegraphic [C 4708/172/62]

FOREIGN OFFICE, *June 30, 1931, 10.50 p.m.*

Following is text referred to in my immediately preceding telegram¹:—

'The Hoover proposal is for the definite suspension for one year of all German payments, *i.e.*, all the payments due in the year 1st July, 1931–30th June, 1932, should be paid during the year 1st July, 1932–30th June, 1933, and so on for each year of the Young plan in future. If the conditional annuities are not to be paid, even in *marks*, the unconditional annuities should also not be paid.

'This principle must be accepted if the Hoover proposal is to stand at all. If it is accepted, it might be arranged that Germany should pay the unconditional annuity in the form of non-interest-bearing bonds due in one year provided that France agrees that next year's annuity should be similarly postponed for one year, and so on for the whole period of thirty-six years. Or it might be agreed that the unconditional annuities should be paid to the Bank for International Settlements, and that the Bank for International Settlements, after taking the sum required for the service of the Young Loan, should refund the balance to Germany, not as a loan but as an out-and-out repayment. In either case, however, it is essential that the German liability should be effectively transferred to next year and that any arrangement in this year should be pure book-keeping and should not involve any effective payment to France.

¹ No. 100.

'If any payments are made by Germany to any of the other creditor Powers, whether in respect of unconditional annuities or deliveries in kind, His Majesty's Government will be forced to claim their due share and the whole Hoover scheme breaks down.'

No. 102

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received July 1, 9.30 a.m.)
No. 385 Telegraphic [C 4675/172/62]

WASHINGTON, June 30, 1931, 1.40 p.m.

My immediately preceding telegram.¹

I took occasion to revert to new idea of President, mentioned in my telegram No. 381.² I pointed out that United States Government were now exerting great pressure on French Government, and that if, on failure of this pressure, they were merely to remit whole difficulty to a European conference they would in effect be merely washing their hands of the business and a successful issue would be impossible of attainment.

Acting Secretary of State said that on reflection President was receding from new idea and reverting again to his original scheme of repeating his offer individually and separately to each Power, though combining it in some manner with a suggestion that European Powers should reach agreement amongst themselves as to working out of various points. Anything conforming in letter and spirit to original offer of June 21 would be accepted by United States Government.

Acting Secretary of State attaches great importance to Belgian acceptance of original offer. He thinks French Government, being now virtually isolated, are less able to resist pressure.

¹ Not printed. In this telegram Sir R. Lindsay reported that Mr. Hoover wished His Majesty's Government to make representations at once to the French Government 'in terms as strong as possible in support of the stand made by the United States Government', and especially to point out that the French proposal with regard to the guarantee fund was unacceptable.

² No. 95.

No. 103

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 458 Telegraphic [C 4658/172/62]

FOREIGN OFFICE, July 1, 1931, 1.40 p.m.

Your telegram No. 384¹ of June 30: Hoover proposal.

As regards guarantee fund, please see my telegram No. 454² recording Sir F. Leith-Ross's conversation with M. Bizot. For the rest, we are of opinion

¹ See No. 102, note 1.

² Not printed. In this telegram of June 30 Sir R. Lindsay was informed that M. Bizot had been told that His Majesty's Government could not accept the French proposals with regard to the guarantee fund.

that the best and most expeditious way of acting in accordance with the desire of the United States Government expressed in your telegram under reference is to take immediate action in the sense indicated in paragraph 2 of your telegram No. 381. We are therefore to-day sounding the French Government to ascertain whether they would come to a conference in London this week-end. If they agree we shall immediately invite the Italians, Belgians and Germans. We should of course hope that in such an event the United States Government would be represented. Mr. Mellon would seem to be most easily available for this purpose.

No. 104

Mr. A. Henderson to Mr. Newton (Berlin)

No. 118 Telegraphic [C 4604/172/62]

FOREIGN OFFICE, *July 1, 1931, 11 a.m.*

My telegram to Washington No. 449¹ of June 29 and Washington telegram No. 383² of June 30: Hoover proposal.

You should support the United States Ambassador in advice he has been instructed to give German Government as regards building of battleships, using more or less the same line of approach as in the case of the Customs Union.

¹ No. 94.

² No. 97.

No. 105

Mr. A. Henderson to Mr. Newton (Berlin)

No. 120 Telegraphic [C 4718/172/62]

FOREIGN OFFICE, *July 1, 1931*

Your telegrams Nos. 87 and 88¹ of June 30 and my telegram No. 118² of July 1: Representations to German Government on subject of projected Austro-German Customs Union, and expenditure on second pocket battleship.

I took opportunity afforded by visit to me of German Ambassador yesterday to speak to him on question of projected Austro-German Customs Union. I said that this issue undoubtedly constituted a seriously disturbing factor in present situation, and I considered the sooner it was out of the way the better. From the first I had realised the effect German Government's intentions over the union would have in France. French opinion continued to be excited, and, in my view, projected union was proving an obstacle in way of the ready acceptance by French Government of President Hoover's proposals. I added that I had already instructed His Majesty's Chargé d'Affaires in Berlin to speak to Dr. Curtius on the matter.

¹ Nos. 98 and 99.

² No. 104.

I then mentioned question of the provision in this year's German estimates of expenditure on second pocket battleship. I told the Ambassador I was frequently asked how it was possible that Germany, in the financial straits in which she found herself, was able to find money for extravagant expenditure on new types of battleship. It was a contention difficult to meet, and I suggested he should draw attention of his Government to the subject with view to considering whether, in present circumstances and in the critical state of German finances, it would not be expedient to abandon this expenditure.

No. 106

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 2, 9.0 a.m.)

No. 91 Telegraphic [C 4723/172/62]

BERLIN, July 1, 1931, 9.15 p.m.

Your telegram No. 118¹ of July 1.

United States Ambassador informs me that in reply to suggestion made by him on June 30, on the subject of battleships, German Minister for Foreign Affairs said that it would be impossible for German Government to act on it for following three reasons:

(1) Firstly, existing ships were so old that their replacement was unavoidable.

(2) Navy was already kept within such reduced limits by treaty that it would be impossible for German Government to accept further reduction.

(3) Reduction would involve resignation of President Hindenburg.

The United States Ambassador seemed to think that it was improbable that further progress could be made with this suggestion as unless most extreme pressure were applied, it would be impossible to move German Government from attitude stated. I agree and would like to know whether in the light of the foregoing your instructions are modified. Meanwhile I propose to refrain from saying anything to Ministry of Foreign Affairs unless I am approached by them on the subject.

Before receiving your telegram under reply or enquiring what action United States Ambassador was taking or had taken, I had discussed matter with Naval Attaché and reached conclusion that for numbers (1) and (2) alone of above reasons it was unlikely that representations against new construction would have any useful result so far as effect on German Government was concerned.

As regards customs union Mr. Sackett says German Government have not given him any opportunity to express support of my representations. He is, however, now disposed to think that even if German Government could be persuaded to drop the scheme they would not do so merely as a gesture but only if it were definitely known that in return French Government would accept Hoover proposal without reservations.

No. 107

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 464 Telegraphic [C 4675/172/62]

FOREIGN OFFICE, July 1, 1931, 9 p.m.

Your telegram No. 385¹ of June 30 was not received in time to be considered before decision communicated in our telegram No. 458² of to-day was taken. You should make clear that in proposing conference we had no intention whatsoever of delaying or prejudicing any action which President may intend to take in order to ensure settlement by repeating his offer individually and separately. Indeed, we should welcome action of President on these lines, which might well contribute to hasten successful issue, possibly by help of conference if latter idea should be taken up.

¹ No. 102.

² No. 103.

No. 108

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received July 2, 9 a.m.)
No. 386 Telegraphic [C 4721/172/62]

WASHINGTON, July 1, 1931, 2 p.m.

Reparations.

United States Government have sent a long note to French Government to be presented to meeting to-day recapitulating events and urging French acceptance of the spirit of the American scheme for postponement. Note will be published here to-night or to-morrow.

United States Ambassador has also been instructed to inform the French Government that the President is very seriously considering alternative scheme of repeating his offer to each Government separately. This scheme provides that annuity due to America and postponed for one year shall be refunded with interest over period of twenty-five years provided that Governments accepting this offer shall extend exactly the same concession to their creditors.

No. 109

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 2, 9 a.m.)
No. 387 Telegraphic [C 4722/172/62]

WASHINGTON, July 1, 1931, 2.45 p.m.

My telegram No. 372.¹

United States Ambassador in Berlin spoke to Minister for Foreign Affairs about German battleship and was told it was particularly difficult to postpone its construction because the aged Reichspräsident had it very much at heart. This made Acting Secretary of State very angry, and he sent some very stiff

¹ No. 89.

instructions to United States Ambassador *by telephone* to put pressure on the German Government, who must understand that they cannot possibly expect to receive all benefits of the President's scheme without contributing towards securing its accomplishment.

No. 110

Sir R. Lindsay (Washington) to Mr. A. Henderson

(Received July 2, 7.30 a.m.)

No. 388 Telegraphic [C 4716/172/62]

WASHINGTON, July 1, 1931¹

Your telegram No. 458.²

After consulting President, Acting Secretary of State has informed me that suggestion of meeting in London this week-end is viewed favourably here. They will gladly authorise Mr. Mellon to attend if he is physically capable of the exertion.

Only consideration State Department have to put forward is this. The meeting in Paris to-day was quite encouraging, and they rather hope that next meeting to-morrow evening may be expected to produce some definitely favourable result. They ask us to express their hope that invitation to London will not unduly encourage the French to be obdurate at to-morrow's meeting and that you will bear this consideration in mind when issuing invitation.

¹ The hour of dispatch is not mentioned.

² No. 103.

No. 111

Mr. A. Henderson to Mr. Newton (Berlin)

No. 122 Telegraphic [C 4722/172/62]

FOREIGN OFFICE, July 2, 1931, 2 p.m.

Sir R. Lindsay's telegram No. 387.¹

You should speak to Minister for Foreign Affairs immediately in same terms as your United States colleague, pointing out that the views of the two Governments are identical on this point. (See concluding portion of telegram under reference.)

¹ No. 109.

No. 112

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 468 Telegraphic [C 4752/172/62]

FOREIGN OFFICE, July 2, 1931, 2.15 p.m.

Following received by telephone from Paris, unnumbered, July 2:—

'The French Government have received the proposal of the British Government with great interest and gratification. It particularly appeals to M. Briand as offering possibly a better chance of reaching agreement than

any negotiations *à deux*. It is unfortunately impossible for any French Ministers to leave Paris at this moment in view of the imminent closure of the parliamentary session. If, in view of the urgency of the British proposal, His Majesty's Government thought it possible to assemble the proposed meeting in Paris over the week-end, the French Government would gladly accept the suggestion.¹

No. 113

Mr. A. Henderson to Mr. Newton (Berlin)

No. 124 Telegraphic [C 4723/172/62]

FOREIGN OFFICE, July 2, 1931, 9.30 p.m.

Your telegram No. 91¹ and my telegram No. 122² of July 1 and 2: German battleship construction.

Difficulties raised by German Government in reply to United States Ambassador seem to show a wilful misunderstanding of the situation. We do not intend to argue whether replacement of existing ships is unavoidable nor whether Germany should accept further naval reductions. Such questions will be for Disarmament Conference to debate.

All we advise for the present is that, as Germany during the 'Hoover year' will be living on charity of other nations, it would be only decent that during that period she should not be spending money on the construction of the new battleship. Such a suspension would not in any way prejudice subsequent discussion of principles which German Government have at heart.

The third German argument, *i.e.*, threat of President Hindenburg's resignation, is not one which we can take into account. In any case we find it difficult to believe that the President would allow the satisfaction of his personal wishes to complicate negotiations which have for their object the economic salvation of Germany.

You should avail yourself of these arguments provided they do not run counter to those which the United States Ambassador is going to use.

As regards customs union question, it is of course highly desirable that the United States Ambassador should be enabled to support your representations. He is probably right in thinking that in return for dropping the scheme German Government will make stipulation which he foresees, but even so such a statement on the part of German Government would have most helpful effect. I shall be glad to know whether you see any prospect of inducing German Government to consult United States Ambassador on the subject and whether you propose to press German Government for an answer to your own representations.³

¹ No. 106.

² No. 111.

³ Sir R. Lindsay was instructed to communicate the substance of this telegram to the United States Government.

No. 114

Lord Tyrrell (Paris) to Mr. A. Henderson
Unnumbered Telegraphic: by telephone [C 4744/172/62]

PARIS, July 2, 1931, 9.20 p.m.

American Ambassador and Mr. Mellon asked me to call upon them this evening in order to tell me that their meeting with the French Ministers has been postponed from this evening until to-morrow noon. I understand disagreement to be reduced to two points on which, at the request of the Washington Treasury Department, they wish to consult us:—

1. Could the language of section 199, annexe 8, of the experts' report on the Young plan be interpreted to mean that, in the event of a moratorium to be declared by Germany, France would only be required to pay into the guarantee fund such sums as the directors of the Bank of International Settlements decided that it should pay out—in other words, such funds as might be required by the countries participating in the guarantee fund, which might only amount to a portion of the maximum fund?
2. The French have asked the Ambassador and Mr. Mellon to give precision to the statement contained in the American memorandum published to-day with regard to the assistance to be afforded to the Central European countries, which under the Young plan are entitled to assistance from conditional payments of which they are deprived under a moratorium.

The American suggestion is that the Bank of France, the Bank of England and the Federal Reserve Bank should each guarantee 10 million dollars for the purpose of assisting the above countries under the control of the directors of the Bank of International Settlements. It is to be noticed that under this plan the guarantee is increased from 25 to 30 million dollars.

Both the American Ambassador and Mr. Mellon favour an answer in the affirmative to the first point and acceptance of the solution suggested in the second point provided they obtain our concurrence.

They are of opinion that these two obstacles could be overcome.

There is a fair prospect of getting the general agreement through. On this point they appear positive. Time being an essential factor, they would be very grateful for a reply by 10 o'clock to-morrow.

No. 115

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 2, 10.30 p.m.)

No. 389 Telegraphic [C 4749/172/62]

WASHINGTON, July 2, 1931, 1.46 p.m.

Acting Secretary of State tells me that President is very cordially in favour of proposed meeting in London.

If German Government show hesitation in accepting, United States Government would be willing to join in pressing them.

President considers tenor of announcement of meeting is important from point of view of this country, and perhaps, too, of European countries.

He urges general line should be to state that meeting is called to deal with numerous questions of predominantly European concern, solution of which is necessary to ensure success of scheme.

He would then follow on with statement expressing cordial assent and in terms designed to help meeting to reach satisfactory conclusions.¹

¹ The announcement to the press had been made by His Majesty's Government on the evening of July 2 before the arrival of this telegram.

No. 116

Mr. A. Henderson to Mr. Newton (Berlin)

No. 126 Telegraphic [C 4753/172/62]

FOREIGN OFFICE, July 2, 1931, 11 p.m.

On June 30 United States Government reported that a deadlock seemed to have been reached between French and American negotiators over the acceptance by France of President Hoover's proposals. On July 1, therefore, following a Cabinet decision, His Majesty's Government approached French and United States Governments with suggestion that a conference might be held in London to which, if France and United States of America agreed to proposal, we should also invite Japanese, Italian, Belgian and German Governments. French Government have welcomed proposal provisionally, though adding that French Ministers cannot during the present session, which ends on July 6, leave the capital. United States Government are also in favour of proposal.

The idea of such a conference is for the moment in abeyance, pending the result of to-day's Franco-American discussions in Paris, but I wish the Government to which you are accredited to know the steps His Majesty's Government have so far taken in this direction. You should therefore inform Government accordingly.

(Repeated to Washington, No. 476, and Paris, No. 165).

Similar telegrams sent to Rome, No. 185; Brussels, No. 36, and Tokyo, No. 87.

No. 117

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 475 Telegraphic [C 4721/172/62]

FOREIGN OFFICE, July 2 1931, 11.30 p.m.

Your telegram No. 386¹ of July 1: Reparations.

Following is Treasury view: Arrangement described in last paragraph appears to raise considerable difficulties. It would presumably have to be

¹ No. 108.

agreed what relation the repayments of the various parts of the postponed annuity should bear to current annuities. France would be likely to claim that repayments of unconditional annuities should have priority. Further, if Germany cannot pay annuities fixed in Young plan, is it practical to expect her in a year to pay instalment of the postponed annuity as well as full annuity for next year?

The effect on German credit of such a scheme would surely be deleterious. The Treasury continue to feel convinced that simplest and wisest course is to adhere to original Hoover plan as they understood it, viz., to postpone all German annuities and all debts to one year.

If you make verbal use of this view you should explain that there is of course no desire to cut across American negotiations in any way, but that with a view to collaboration Treasury have thought it might be useful for the United States Government to be aware in advance of difficulties that might arise.

No. 118

Lord Tyrrell (Paris) to Mr. A. Henderson (Received July 3)

No. 725 [C 4752/172/62]

His Majesty's representative at Paris presents his compliments to the Secretary of State for Foreign Affairs and has the honour to transmit to him copy of an aide-mémoire to the French Government of the 2nd July, 1931, on the subject of representations to the German Government respecting the Austro-German Customs Union and the new German battleship.

PARIS, July 2, 1931.

ENCLOSURE IN No. 118

Aide-mémoire

His Majesty's Embassy is authorised to inform the Ministry for Foreign Affairs that, acting on instructions, His Majesty's Chargé d'Affaires at Berlin drew the attention of the German Minister for Foreign Affairs on the 30th June to the disturbing factor in the general situation constituted by the Austro-German Customs Union. His Majesty's Chargé d'Affaires emphasised the fact that no better contribution to the restoration of international confidence could be made by the German Government than by the removal of this contentious question from the political arena.

2. On the same day Mr. Arthur Henderson spoke in this sense to the German Ambassador in London and mentioned to Baron von Neurath the question of the expenditure on the German pocket battleship. Mr. Arthur Henderson suggested to his Excellency that it might be desirable for him to draw his Government's attention to this matter in order that they might consider whether it would not be expedient for them at the present juncture and in the critical state of their finances to abandon this expenditure.

3. It appears that the United States Ambassador at Berlin also spoke to the German Minister for Foreign Affairs about the German pocket battleship

in the same sense as Mr. Arthur Henderson spoke to Baron von Neurath. Herr von Curtius appears to have informed his Excellency that it was difficult to postpone construction of this vessel in view of the urgent necessity of the replacement of old ships. He apparently added that the President of the Reich had the matter very much at heart. On the receipt of this information in Washington the United States Ambassador in Berlin was instructed to make a further communication to the German Government and to explain to them that they cannot expect to receive all the benefits of the United States Government's proposal for the suspension of reparation payments without making some contribution on their part. Mr. Arthur Henderson has to-day instructed His Majesty's Chargé d'Affaires at Berlin to speak to the German Minister for Foreign Affairs in the same terms as his United States colleague, and to point out that the views of the British and United States Governments are identical on this point.

No. 119

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 166 Telegraphic [C 4744/172/62]

FOREIGN OFFICE, July 3, 1931, 3.30 a.m.

Your unnumbered telegram¹ (by telephone) of July 2.

At present we have no precise information as to the nature of the proposals under consideration in Paris. In the circumstances it is exceedingly difficult to give complete answers or even to judge meaning of some points raised. But, independently of this, it is clear to us that our replies to the two specific questions asked must be as follows:—

1. Section 199 of the plan clearly requires France to complete full amount of 500 million reichsmarks for guarantee fund in event of a moratorium, and any other system entails modification of plan to disadvantage of creditor Powers other than France.
2. Bank of England have been ready, whenever possible, to co-operate in assisting central banks in cases of necessity. But they must reserve entire discretion to deal with any such request as it may arise in concert with the Bank for International Settlements and other central banks, and they cannot contemplate political loans to Governments.

In general, the position of His Majesty's Government is as follows: They are ready to co-operate whole-heartedly in giving effect to President Hoover's original proposal, which they understood to mean complete and unqualified suspension of all inter-governmental payments for one year. For this purpose they have announced their willingness to incur heavy sacrifices which it will not be possible for them to justify to public opinion in this country if the President's proposal were so altered as to allow exceptions to the principle of complete suspension or to involve burdens on Germany which would defeat his object of restoring her credit.

¹ No. 114.

*Mr. Newton (Berlin) to Mr. A. Henderson (Received July 3, 9.30 a.m.)
Nos. 94 and 95 Telegraphic [C 4775/172/62]*

BERLIN, July 3, 1931, 1 a.m.

Your telegram No. 122.¹

After seeing United States Ambassador this afternoon, I carried out instructions at interview with Minister for Foreign Affairs this evening. United States Ambassador had told me that he had learnt over the telephone, since a previous interview I had had with him this morning, that United States Government considered minimum needs of situation might be met if German Government would make a statement which, without affecting cruiser 'A' at all, would declare that there would be no appropriation for or laying down of other cruisers during holiday year beyond expenditure of 9 million marks already assigned to Cruiser 'B.' Furthermore, it should be stated that budgetary relief gained during holiday year would not be applied to any increase in military or naval expenditures.

In explaining position to Minister for Foreign Affairs, I said I was instructed to make it clear that His Majesty's Government entirely supported views of United States Government expounded to German Government by United States Ambassador.

He was in fact simultaneously expressing them to Chancellor and Secretary of State at Chancellor's house.

At the same time I recited to Minister for Foreign Affairs what you had said to German Ambassador as set forth in your telegram No. 120,² and emphasised lamentable impression which would be produced if, while other countries were straining every nerve to help, Germany herself sat back and refused to make any contribution herself. I told him, moreover, that so far as I knew there had never been any question of Germany's wanting to increase her naval or military expenditure during holiday year, so I presumed there could be no difficulty in making statement required as a minimum by United States Government. Only departure which it would seem to involve from what she would in any case be doing was that sanction for further expenditure on new construction, for which authority would otherwise have been sought in next budget, would have to be deferred until the end of holiday year.

Minister for Foreign Affairs seemed relieved at moderation of American request, but said that as reply would of course have to be given first to United States Ambassador, who was seeing Chancellor, he could not make any immediate answer himself.

Minister for Foreign Affairs indicated, however, that in this case, as in the matter of customs union, it was most difficult for German Government to take any step which could be represented as due to external dictation, and said that any sign of yielding in regard to the matter must be resented by Reichswehr, on whose loyalty Government depended in the last resort.

¹ No. 111.

² No. 105.

He mentioned confidentially that, as part of various savings called for by the last budget and recent emergency decree, it had been decided to cut down naval and military expenditure by some 50 million marks. I suggest, therefore, that this reassuring fact might be brought out in proposed statement as showing that such expenditure would in fact be decreased in the coming year.

I have since seen United States Ambassador and informed him of my interview with Minister for Foreign Affairs. United States Ambassador said that Chancellor had been most emphatic as to precariousness of the position of the Government and of the country generally, saying that any public reference to cruisers was impossible and might impair the loyalty of the Reichswehr, who would regard it as a sign that the Government were ready to tamper with the minimum defences allowed to Germany under the treaty. Chancellor is, however, considering whether he can make some kind of statement, and will inform United States Ambassador at the earliest possible moment.

No. 121

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 141 Telegraphic: by telephone [C 4766/172/62]

PARIS, July 3, 1931, 1.30 p.m.

Your telegram No. 166.¹

1. I am losing no opportunity of insisting on French Government and on American negotiators difficult position of His Majesty's Government before any request for further concession on their part after generous, immediate and complete British acceptance of Hoover's proposal.

2. I must, however, emphasise following considerations:—

(a) *French Payment to Guarantee Fund.*

French view is that section 199 of the Young plan only requires France to pay such sums into guarantee fund as directors of Bank of International Settlement may decide to be necessary—in other words, that countries participating in guarantee fund might only require a portion of maximum fund. If French view were correct entire difficulty on this point would be removed, and it is by far the most difficult of the two points outstanding. American negotiators do not pretend to give an opinion on a legal issue involved in an agreement to which America is not a party. But they do not think French attitude unreasonable, and urge that matter be treated as one of political expediency and not of purely legal interpretation. They consider proposed solution a practical one, though if we feel unable to give way they are quite ready that 'French should be turned on to us'. They have spent ten days in trying to *make* French give way and have not succeeded, and they have already had a long discussion on the point with their own Treasury, which at first attempted to deal with matter on grounds of strict theory and then gave up

¹ No. 119.

attempt in despair. They point out that object of their negotiations has been to prevent necessity of recourse to guarantee fund (*i.e.*, moratorium) arising. Too stiff an attitude at present moment is likely to break negotiations and create very necessity which it is desired to avoid.

(b) *Assistance to Central European Countries.*

This matter is in a tentative state even so far as French are concerned, as they have not yet committed Bank of France—general idea is that there should be an arrangement between Banks of England and France and Federal Reserve Bank and Bank of International Settlement to open credit or perhaps only state credit available up to, say, 30 million dollars for purposes outlined by French (assistance to bank and industrial encouragement and not Government). It is true that country chiefly concerned is Yugoslavia, that¹ French have also emphasised need of aid for Austria and Hungary, and it would be easy for us to stipulate for that at a later stage. Americans point out that amount involved is negligible, but that it is a question of giving French satisfaction for political reasons—‘a feather in the hat’. As on point (a) above, a conciliatory attitude on our part in this question may diminish amount of aid required and therefore extent of concession made.

3. In conclusion, I desire most strongly to represent the danger of a too rigid insistence on letter of written stipulation at present juncture. I fully realise, and have strongly urged, the difficulties of our political situation after our whole-hearted acceptance of the Hoover plan and of the sacrifices entailed thereby; but the moment is one of great delicacy here, and neglect of the political considerations involved and of the great importance of giving the French Government some ‘paper’ satisfaction may lead to collapse of whole negotiations.

4. I would be glad of any ammunition it were possible to give me before meeting of French Ministers and American negotiators, which has been postponed from noon until this evening on account of the internal political situation here, which is critical.

¹ The text here should probably read ‘but’.

No. 122

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 3, 8.20 p.m.)

No. 97 Telegraphic [C 4777/172/62]

BERLIN, July 3, 1931, 6.15 p.m.

My telegram No. 94.¹

United States Ambassador has now received and shown me in confidence draft statement which German Government might make. It is very meagre, being to the effect that, in view of apprehensions which have arisen in various quarters, German Government wish to make it clear that they neither intend nor will increase expenditure on army and navy during holiday year. The

¹ No. 120.

allotted relief obtained by Germany will be devoted in its entirety to consolidation of her financial and economic position.

In communicating this statement to United States Ambassador, German Secretary of State said that, although German Government would be willing to let such a statement appear if pressed to do so by United States Government, they did not themselves consider its issue judicious, as it might easily do more harm than good and magnify the suspicion that some concession to Germany's detriment lay behind it. If desired, therefore, statement would be issued in most unobtrusive manner possible, perhaps in the course of a speech or a press communiqué.

No. 123

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 168 Telegraphic: by telephone, en clair [C 4766/172/62]

FOREIGN OFFICE, July 3, 1931, 9.55 p.m.

We fully appreciate the considerations urged in your telegram No. 141¹ against too rigid insistence on written stipulations. But there are other considerations which must also not be lost sight of. Our telegram No. 166,² and Leith-Ross, in his telephonic conversation this morning, emphasised the political difficulties in which the Government will be placed if it is found that, while they accepted the Hoover plan completely and at once, other Powers succeed in securing special concessions at the price of a more limited assent to the plan. Apart from this, it must be borne in mind that even if the discussions now proceeding in Paris lead to a settlement with the French, they do not represent anything more than first stage of negotiations. Any departure from the original Hoover scheme and any compensations conceded to France will certainly provoke similar demands from other Powers. Belgium has indicated in her reply that she counts on the adaptation of the plan to meet her special position. Greece has protested vehemently against the loss of Hungarian and Bulgarian reparations. It has yet to be seen whether Italy will not raise special claims if other Powers do so. Once the Hoover plan for a complete and unconditional suspension of payments is departed from, the acceptance of that offer must necessarily be open to withdrawal and a completely new situation arises. Moreover, in so far as points raised, e.g., the payment of the guarantee fund, affect other creditor Power besides ourselves, it is obviously impossible for us to commit ourselves to acceptance of French proposals without laying us open to the reproach that we have sacrificed the interests of other States in order to satisfy France. If, therefore, we find it difficult to accept proposals put forward, it must not be taken as due to any lack of goodwill, but to the inherent difficulties of the situation which cannot be properly judged without having before us the full framework of the proposals under consideration and being able to see the repercussions that they will create. You should explain this fully to Mellon, who, judging by paragraph 2 of your telegram No. 141, may not fully have understood the

¹ No. 121.

² No. 119.

probability of these subsequent difficulties, or that agreement with French on the ground now suggested would not in itself be a solution, but the beginning of a chain of subsequent complications.

To turn now to the special points which have been raised, the method of payment of the guarantee fund has never hitherto been in doubt.

Only a few days ago the French Minister of Finance stated in the Chamber (see your telegram No. 134¹ of June 28) that under a moratorium 'France would be obliged immediately to complete the constitution of the guarantee fund of 500 million marks'. This was the forfeit which France agreed to pay in return for the priority accorded her on the unconditional annuities, and any modification of the system constitutes a modification of the plan in the interests of France and against those of the other creditor Powers. The question is not merely a matter of form; if it were, we should not, of course, be disposed to make difficulties. The method of payment affects all the creditor Powers other than France, and if the guarantee fund is not to be placed in the hands of the Bank of International Settlements as provided in the plan, they will almost certainly hold that those interests are affected. We do not, naturally, wish in any way to be obstructive, and we should be happy to make any constructive contribution to the difficulties now being encountered in Paris. We feel that such a constructive contribution can be made. It is this: if the question is to be treated as one of political expediency and not of legal interpretation, there is one simple method of meeting the French Government's wishes, viz., to provide that the unconditional annuities should be divided between all the creditor Governments in proportion to their respective shares in the total annuity instead of in the arbitrary proportions fixed by the Young plan. An arrangement on these lines would at once obviate any necessity for a guarantee fund, and we suggest that you should strictly urge its adoption. If there are objections to a permanent solution on these lines, we should be prepared, if other creditor Powers agreed, to consider adopting it, as a provisional arrangement, for two years, without prejudice to the future.

As regards the proposals for financial assistance to Central Europe, the suggestions now made do not seem to tally with that put forward yesterday when the object was understood to be to assist Governments which are deprived of assistance out of conditional annuities. But in any case the Bank of England, as you are well aware, has done very much more than any other Central Bank to assist the credit difficulties of Central Europe, and has, in fact, almost without assistance from France been upholding several of these countries. The American negotiators are no doubt aware of what has happened in Austria and of what is happening in Hungary in this respect. In the former case the views of the United States Government are in complete accord with ours. In the case of Germany, British financial support has been on a vastly greater scale than that of France. In any case His Majesty's Government have no right to press the Bank of England to engage in further credits which must be decided by the Bank acting independently, but even

¹ Not printed. See No. 91, note 1.

if they had the right, they would not be prepared to use it in order to facilitate French political aims in Central Europe. Ministers feel very strongly on this part of the proposals put forward and you should not disguise their feelings from Mr. Mellon.

No. 124

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 4, 9.0 a.m.)

No. 98 Telegraphic [C 4789/172/62]

BERLIN, July 3, 1931, 9.50 p.m.

Your telegram No. 124¹ received this morning, crossed my telegram No. 94,² sent late last night, reporting the position then regarding naval and military expenditure. Subsequent development is reported in my telegram No. 94.

Position as regards customs union is as follows:—

Shortly after my interview of June 30 with German Minister for Foreign Affairs, reported in my telegram No. 87,³ United States Ambassador had his first interview regarding naval construction with German Chancellor, at which Secretary of State was present. At early stage Herr Bülow mentioned that approaches had been made to the German Government for political concessions in connexion with the Hoover scheme. For instance, it had been suggested that they should drop the customs union. This was of course 'undiscussable.' United States Ambassador felt, therefore, precluded by his instructions from offering comment.

At my interview with Minister for Foreign Affairs on July 2, after dealing with the question of naval and military expenditure, I recalled that in previous conversations on customs union I had observed that His Majesty's Government were probably able to take a more detached view of this question than any other European Government.

I now wished to say (a step for which I had previously obtained authority of United States Ambassador) that I understood that United States Government, who were in an even better position to take a detached view, entirely shared opinion of His Majesty's Government. I furthermore pointed out that German Government themselves had originally explained that proposal for customs union was intended to help the task of economic reconstruction. Events had belied this intention and shown that, instead of being a help, it was in fact a hindrance. Why, therefore, could it not be withdrawn? Dr. Curtius intimated, however, that position of German Government was such that they could not afford to make such a concession. Subject to result of proceedings at the Hague Court, it was proposed that customs union idea should be openly and thoroughly discussed by Geneva committees, where he seemed to think it would receive considerable support, *e.g.*, he mentioned that Dutch had expressed approval of customs union method as one of the most promising means of improving the economic situation in Europe. He hopes that the idea would receive considerable extension, and that larger countries, *e.g.*, France and Czechoslovakia, would adopt the union.

¹ No. 113.

² No. 120.

³ No. 98.

As regards political difficulty alleged by German Government, I urged, for the sake of her own self-respect, that Germany should wish to do something for common good at present time. But Dr. Curtius maintained above position, saying that it represented his answer provisionally.

You will see from above, which I was about to telegraph when I received your telegram No. 124, that I have already done what I can to induce German Government to consult United States Ambassador. United States Ambassador has, however, the impression that there will be careful abstention from consulting him. I have, therefore, asked counsellor of American Embassy whether Ambassador could not obtain authorisation from his Government to press question directly himself. Such a step would seem to be the best method at present of making further progress, and I understand that [? United States Ambassador]¹ feels that the most useful and most likely concession which might be obtained is in regard to customs union.

Perhaps His Majesty's Ambassador at Washington could assist in obtaining necessary authorisation.

¹ The text here is uncertain.

No. 125

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 4, 9.0 a.m.)

No. 99 Telegraphic [C 4780/172/62]

BERLIN, July 3, 1931, 9.50 p.m.

Your telegram No. 442¹ to Washington, point 3.

I took an opportunity which presented itself during conversation with Minister for Foreign Affairs on July 2 to mention that apprehensions had been expressed to me that relief resulting from the Hoover proposal might lead to amendments reducing yield of emergency decree. I said that in reply I had referred to Chancellor's broadcast speech, and reported that I had seen no evidence in any responsible quarter of such an intention. Dr. Curtius thereupon assured me emphatically that there certainly was no such intention, and that the Government, although naturally pressed in various quarters to do otherwise, were determined that total yield should not be reduced, and should be used solely to strengthen Germany's financial and economic position.

¹ No. 87.

No. 126

Lord Tyrrell (Paris) to Mr. A. Henderson

Unnumbered Telegraphic: by telephone [C 4776/172/62]

PARIS, July 4, 1931, 8.30 a.m.

Following communiqué was issued at 1.30 this morning respecting Franco-American negotiations:—

'The representatives of the two Governments continued the examination

of President Hoover's proposals and of the French note in reply thereto. Mr. Andrew Mellon informed his French colleagues that the United States Government has decided to accept the maintenance of the payment by Germany of the unconditional portion of the German debt as provided by the Young plan. Other divergencies of views have been settled; others which remain and which are of minor importance will be submitted to the Council of Ministers which will meet to-day. The agreement on the technical and financial part of the negotiations appears, under reserve of the approbation of the other interested Powers, likely to be arrived at very shortly.¹

The parliamentary session was closed by decree at 2.30 this morning.

No. 127

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 143 Telegraphic: by telephone [C 4791/172/62]

PARIS, July 4, 1931, 12.30 p.m.

I read your telephone message¹ of yesterday afternoon to Mr. Mellon and American Ambassador before their meeting with French last night. They were interested in the views expressed, but held that they were extraneous to their discussions with the French, and that especially in view of increasing difficulties of Reichsbank it was necessary to issue some reassuring communiqué at once.

2. Communiqué was issued at 1.30 this morning and it had already been telephoned.

3. Two points discussed in our telephonic correspondence of yesterday seem to have been settled in words of communiqué, 'under reserve of approbation of interested Powers'.

4. Question of French payments to Guarantee Fund has been left over as not concerning America, which was not a party to the Young plan. As already reported, the personal view of American negotiators is that French interpretation of Annex 8, Section 199, of plan is reasonable, though they realise that others are entitled to take another view. French do intend to place Guarantee Fund in the hands of Bank of International Settlements, but 'on the demand of the Bank' and to the extent required by banks.

Credit to Central Europe.

5. It seems to have been agreed that Federal Reserve Bank and Bank of France are ready to place 10 million dollars at the disposal of Bank of International Settlements for *all* countries other than Germany, with priority for those affected by suspension of payments. It is pointed out that final decision

¹ The reference appears to be to No. 123. There is no record of any other telephonic communication from Mr. Henderson to Lord Tyrrell, but the substance of No. 123 may have been communicated before 9.55 p.m. on July 3.

as to use of these credits rests with Bank of International Settlements, and question of using them 'to facilitate French political aims in Central Europe' will not therefore, in practice, arise.

6. New difficulty arose last night over question of period within which suspended payments must be repaid; and French attitude apparently stiffened on this point as compared with that observed at previous meeting. This is apparently really matter which will be discussed at Ministerial Council this afternoon and afterwards at further Franco-American meeting. There seems to be some nervousness as to whether agreement will now be possible on this cardinal point.

7. If agreement can be reached it seems possible that Americans will immediately declare suspension of collection of payments to be effective, leaving remaining details (including Guarantee Fund) to be settled at meeting of creditor Powers.

No. 128

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 4, 4.30 p.m.)

No. 100 Telegraphic [C 4790/172/62]

BERLIN, July 4, 1931, 2.50 p.m.

My telegram No. 98¹, penultimate paragraph.

In view of more favourable news from Paris and his desire not to complicate the situation, United States Ambassador is at present refraining from making further suggestion to his Government. A day or two ago, however, he reported on the subject of customs union in a sense which half suggested that his limited authority to discuss question might be further extended.

¹ No. 124.

No. 129

Sir R. Lindsay (Washington) to Mr. A. Henderson

(Received July 4, 7 p.m.)

No. 395 Telegraphic [C 4783/172/62]

WASHINGTON, July 4, 1931, 10.58 a.m.

Having heard meeting at Paris yesterday resulted in deadlock, I called on Mr. Castle early this morning and urged strongly that if the President now decides to restate his offer he will explicitly include in it stipulation that the procedure shall be followed of pushing all annuities forward for one year (see Treasury view expressed in your telegram No. 479¹) and not by refunding over any period of years.

¹ Not printed.

No. 130

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 4, 9.20 p.m.)

No. 396 Telegraphic [C 4784/172/62]

WASHINGTON, July 4, 1931, 1.11 p.m.

Berlin telegram No. 95,¹ last paragraph.

Chancellor also told United States Ambassador that one of the D Banks was requiring Government support, and that a very large Bremen concern was in imminent danger of collapse.² Acting Secretary of State, speaking semi-officially, wondered whether Germans were not again wilfully exaggerating their alarm and also expressed impatience at their unhelpfulness.

¹ No. 120.

² The *Norddeutsche Wollkammerei*, one of the largest industrial concerns in Germany, was known on July 3 to be unable to meet its creditors. The failure of this company involved several large German banks, and particularly the *Darmstädter und Nationalbank*.

No. 131

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 494 Telegraphic [C 4789/172/62]

FOREIGN OFFICE, July 4, 1931

Berlin telegram No. 98¹ of July 4: Austro-German Customs Union.

You should ask United States Government whether in circumstances described by Mr. Newton they could not see their way to instruct United States Ambassador in Berlin to support the advice given by His Majesty's Government to German Government without waiting further to be 'approached'. The present opportunity of moving the German Government to make this gesture in the interest of general re-establishment of confidence may not recur.

¹ No. 124.

No. 132

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 5, 12.15 p.m.)

No. 398 Telegraphic [C 4786/172/62]

WASHINGTON, July 5, 1931, 2.40 a.m.

I was called to State Department this evening just as reports were coming in from Paris of meeting which took place there to-day. I understand that agreement has been reached on the following points and principles:—

1. Unconditional annuities are to continue to be paid, but complete relief is afforded to Germany by their immediate reloan to State railways.

2. Assistance to Southern and Eastern Europe is an affair for the banks with which United States Government is not concerned.

3. Agreement on repayment of postponed annuity in twelve years.
4. Question of guarantee fund drops out with consent of both French and United States Governments.
5. Reparation in kind: United States Government maintain strongly that this question must be referred to expert committee with instructions that solution must be found *within spirit of original American proposal*. French would accept provided words underlined¹ were omitted. American contention was that if an exception was admitted in this case others would have to follow in perhaps many other cases. Mr. Mills was anxious to follow suggestions from Treasury contained in your telegram No. 445². Then came over from Paris formula which is apparently part of documents intended to embody Franco-American agreement. Its terms are as follows:—

'French Government recalls its previous reservation conditioning final agreement on the execution of existing contracts for deliveries in kind, and it emphasises that these contracts pass between private persons and do not come within the scope of inter-governmental obligations.

'United States Government declares that it cannot commit itself on this point. It maintains that study and solution of this question shall be referred to a council of experts representing interested Powers.'

Mr. Mills was particularly anxious to know your views on this proposal as soon as possible.

It seems to him that this was a complete surrender of American position and fraught with dangers described above. He rather thought it ought to be rejected.

There is to be another meeting in Paris on Monday. See my immediately following telegram.

¹ Printed in italics.

² Not printed. See No. 88, p. 107, note 1.

No. 133

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 5, 11.0 a.m.)

No. 399 Telegraphic [C 4787/172/62]

WASHINGTON, July 5, 1931, 0.17 a.m.

My immediately preceding telegram.¹

Another formula also came over in the following terms:—

'French Government recalls terms of its note relative to the assurance it expects from Germany as to utilisation of sums of which German budget will be cleared, assurance upon which final accord will be conditioned. United States Government take note of this condition.'

¹ No. 132.

By this time Mr. Castle had gone away, and Mr. Mills was inclined to 'sidestep' this proposal, *i.e.*, let it go through. I said to him that I thought Mr. Castle would refuse to agree to it as it implies consent to exposing German Government to just that sort of pressure which United States Government and His Majesty's Government had refused to exercise, and against which they had protested on previous occasion. Mr. Mills asked me to obtain your views on this, too, as soon as possible.

No. 134

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 145 Telegraphic: by telephone [C 4792/172/62]

PARIS, July 5, 1931, 3.15 p.m.

American Ambassador has just informed me that following Bases of Agreement were telegraphed to Washington at 2 a.m. this morning, after acceptance by French Ministerial Council:—

- (1) Postponement of all inter-governmental obligations relating to Germany from 1st July, 1931, to 30th June, 1932, with exception of total unconditional annuities of 612 million marks.
- (2) Payment of postponed *conditional* annuity will be demanded on twelve annuities from 1st July, 1931. First two will fall due for payment without interest on 1st July, 1932, and 1st July, 1933, and refunding will be distributed over ten last years, interest being in principle that of chief Government public debt.
- (3) Payment of annuity on war debts will be postponed on same conditions of repayment as in (2) above.
- (4) Bank of International Settlements will hold *unconditional* annuity after deduction of service on Young loan; and remainder will be invested in German railway bonds guaranteed by German Government and Reichsbank or else in certain financial institutions; interest and refunding as in (2) above. French Government hope other Governments will adopt same policy, but proposals will not, so far as they are concerned, be invalidated by refusal of any other Government so to act.
- (5) Special fund of 30 million dollars to be created, and United States Government to ask Federal Reserve Bank to accept one-third of this fund. Banks of France and, it is hoped, of England will be asked to do likewise; fund to be administered and invested, at the discretion of the Bank of International Settlements, with priority for institutions in those Central and Eastern European countries specifically affected by postponement of German payments.
- (6) French acceptance of above proposals is conditional on Bank of International Settlements approving following formula:—
'Article 199 leaves it to the Bank of International Settlements to decide conditions on which France shall make deposits in

guarantee fund; it being understood that Powers other than France shall receive monthly payments in cash equal to amount received if non-postponable annuities have been distributed in same proportions as total annuities. The Bank of International Settlements shall agree with French that payments to its account shall be made on a monthly basis and not in advance, to extent necessary to provide other Powers with sums to which they will ultimately have a right under article above mentioned and of corresponding articles of Hague Trust Agreement.'

(7) French Government mentioned previous reservation conditioning final agreement on execution of existing deliveries in kind contracts. These contracts *entered into by private persons* do not come within scope of inter-governmental obligations. United States Government does not commit itself on this point, but is ready to refer matter to a committee of experts of interested Powers.

(8) French Government mentioned assurances expected from Reich respecting utilisation of sums released to German budget. 'Final agreement is conditional on these assurances being received.' United States Government takes note of statement.

2. Early this morning Mr. Mellon spoke to Washington on telephone, and at 11.30 a.m. telegram in following sense was received from Washington. Its despatch was prior to complete study of Bases of Agreement summarised above:—

3. United States Government hold that French proposal affecting deliveries in kind is inconsistent with Hoover offer. United States Government agree that special treatment may be required for delivery covered by existing contracts. But so far as deliveries constitute a burden on debtor Governments, no 'device for transfer of funds from one Government to another falls within the President's proposals'. United States Government 'cannot consent to transfer of payments from Germany to France by deliveries in kind during period of suspension any more than to transfer of cash payments'.

4. Telegram concludes that United States position is final, and unless decision respecting deliveries in kind is acceptable to French Government 'we propose to break off negotiations on Monday morning'.

5. Mr. Mellon received instructions to communicate above to me in order that I might ascertain reaction of His Majesty's Government. He is now seeing French Finance Minister and is giving him gist of above telegram from Washington.

6. You will note that United States Government have not yet considered other points in proposed Bases of Agreement, but are threatening to break on deliveries in kind only. American negotiators have pointed out to me that the French will reply that cessation of deliveries in kind will be equally injurious to industrial structure of both France and Germany.

7. Mr. Mellon has asked me to obtain expression of your views as early as possible this afternoon. If break comes United States Government apparently now propose to approach each Government with Hoover offer individually.

Mr. A. Henderson to Lord Tyrrell (Paris)
No. 176 Telegraphic: by telephone [C 4792/172/62]

FOREIGN OFFICE, *July 5, 1931, 9.30 p.m.*

Your telegram No. 145:¹ Deliveries in kind.

You should say that His Majesty's Government entirely share the views of the United States Government, who consulted us last week (see our telegram No. 445² to Washington, repeated to Paris, No. 144, of June 27).

It seems to us essential that deliveries in kind should cease, and, if they do not, His Majesty's Government will certainly have to stipulate for the equivalent Reparation Recovery Act payments. The question seems to us one of principle which should be settled by Governments and not referred to experts.

If our views are wanted on other points you can verbally use the substance of the following paragraph:—

We anticipate the greatest difficulties from the arrangements for repayment of postponed annuity over ten years. If the repayments are to take priority of future annuities the security for our receipts under Young plan will be decidedly prejudiced. It must be remembered that under Young plan we have only insignificant share in first £30 million paid by Germany (unconditional annuities), but we are entitled to about half of next £20 million paid in respect of these conditional annuities. We were induced to accept this arrangement, despite misgivings, on the ground that it might reasonably be hoped that in any case Germany would be able to pay a minimum of £50 million a year, in which case we should be all square. It becomes more and more evident that estimates of German capacity then made were too optimistic and possibilities of getting minimum of £50 million seem now remote. But if Germany is to be required to repay the postponed annuity in next twelve years she will have to make an additional annual payment of approximately £10 million a year over and above the normal future annuity. If this payment is to be specially secured and take priority of current annuity it must seriously jeopardise the prospects of our receiving our normal share. It will therefore be very difficult for His Majesty's Government to accept such an arrangement unless distribution of German payments is modified so as to avoid all special priorities.

We also anticipate strong objection from Germany to proposal that the postponed unconditional annuity should be reinvested in German railway bonds guaranteed by German Government and by Reichsbank. The suggestion of a Reichsbank guarantee seems to us impossible to justify. It would doubtless require special legislation, which both German Government and Reichsbank would be most reluctant to accept.

The proposal for creation of a special fund for Central and Eastern European countries seems to us impracticable so far as we are concerned. We have already explained in our telegram No. 168³ of July 3 our general views

¹ No. 134.

² See No. 88, p. 107, note 1.

³ No. 123.

on this point. For our part it would not be possible to justify making loans to Central European reparation creditors so as to enable them to escape losses from moratorium when we are ourselves sacrificing much more and are suspending all our claims upon them. In any case question is purely a banking one, and His Majesty's Government are not prepared to press the Bank of England to undertake proposed obligation.

As regards guarantee fund, interpretation of provisions of the Young plan does not rest with the Bank of International Settlements and His Majesty's Government must reserve all their rights on this point (see again telegram No. 168 of July 3).

As regards your final paragraph, while we have, as you know, urged the German Government privately to give suitable assurances, we cannot be parties to any statement that suspension of payments is conditional on such assurances. Such tactics only entail delay and do not seem to us legitimate (*cf.* the case of Austria).

It appears to us that these stipulations, taken as a whole, would constitute a very serious departure from President Hoover's original proposal and, as explained in our telegram No. 168, would entail long and difficult negotiations. We had understood that President's offer was simple postponement for one year of all payments, and our immediate acceptance of this proposal and our announcement, especially as regards Dominions, put us in a very difficult position if all these details are now to be raised and made matters of bargain.

No. 136

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 177 Telegraphic [C 4792/172/62]

FOREIGN OFFICE, July 5, 1931, 10 p.m.

My immediately preceding telegram.¹

We should, for our part, not be sorry to see alternative procedure envisaged in your last paragraph,² as we believe it might produce more prompt results.

¹ No. 135.

² i.e. paragraph 7 of No. 134.

No. 137

Lord Tyrrell (Paris) to Mr. A. Henderson

No. 146 Telegraphic: by telephone [C 4795/172/62]

PARIS, July 6, 1931, 10.30 a.m.

My telegram No. 145.¹

After American negotiators had informed French Government of President Hoover's refusal to agree to continuation of deliveries in kind latter produced a formula to the effect that, whilst French Government could not accept responsibility for any breaches of contracts that might occur resulting from

¹ No. 134.

cessation of deliveries in kind, they would agree to value of these deliveries being paid into the Bank for International Settlements and being treated in the same manner as the unconditional annuities. Formula in this sense submitted by French Government left much to be desired, and it is understood that French Ambassador at Washington is trying, in collaboration with United States Government, to produce a formula satisfactory to the latter.

Next meeting of American and French negotiators is fixed for 3 p.m. to-day.

No. 138

Lord Tyrrell (Paris) to Mr. A. Henderson

No. 147 Telegraphic: by telephone [C 4796/172/62]

PARIS, July 6, 1931, 10.30 a.m.

Your telegram No. 176¹ and my immediately preceding telegram.²

I have communicated views expressed in your telegram to American negotiators, who inform me that, as well as refusing to agree to continuation of deliveries in kind, President Hoover has raised objection to a number of points in Bases of Agreement which the American negotiators here consider to be of a drafting nature, and of which they hope to secure the modification in a manner satisfactory to the President.

President Hoover also refuses to agree to the paragraph in the agreement respecting assurances given by the German Government. Language held in his reply to American negotiators on this point closely corresponds to that in your telegram under reference. American negotiators, however, hoped that satisfactory assurances will be immediately forthcoming from German Government and that French Government will consequently no longer require inclusion of this clause in the agreement. This hope would appear to have been realised (see statement by German Chancellor published in this morning's press, which corresponds to language held in Berlin telegram No. 97³).

United States Government concur in the view of His Majesty's Government that the question of loans to Central European reparation creditors is purely a banking one.

¹ No. 135.

² No. 137.

³ No. 122.

No. 139

Lord Tyrrell (Paris) to Mr. A. Henderson

No. 148 Telegraphic: by telephone [C 4808/172/62]

PARIS, July 6, 1931, 12.45 p.m.

My immediately preceding telegram.¹

American negotiators have now received full observations of United States Government on draft Bases of Agreement. Their criticisms are stated to be

¹ No. 138.

somewhat similar to those contained in your telegrams Nos. 168 and 176.¹ United States Government have telegraphed a fresh draft of the Bases of Agreement for consideration by French Government. This draft is stated to embody gist of former bases, but in much simpler form. United States Government will agree to cash equivalent of reparation in kind being paid into Bank of International Settlements and treated in same manner as unconditional annuities, but it is anticipated that difficulty will be experienced in drafting a formula to this effect satisfactory to both parties.

2. Mr. Mellon and American Ambassador are now (noon) to see French Finance Minister, and it is expected that further meeting with delegates of French Government will take place at 3 p.m.

¹ Nos. 123 and 135.

No. 140

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 150 Telegraphic: by telephone [C 4849/172/62]

PARIS, July 6, 1931, 6.10 p.m.

My telegram No. 148.¹

At meeting between French and American negotiators, former raised a number of objections to the new draft of Bases of Agreement telegraphed from Washington. Conference then adjourned to enable French negotiators to prepare a counter-draft of Bases of Agreement. This is at the moment being examined by Council of Ministers. Conference will meet again at 7 p.m. and compare French and American drafts.

¹ No. 139.

No. 141

Lord Tyrrell (Paris) to Mr. A. Henderson (Received July 6, 1931)
No. 151 Telegraphic: by telephone [C 4850/172/62]

PARIS, July 6, 1931, 7 p.m.

My immediately preceding telegram.¹

Havas News Agency are giving out the following:—

‘In order to avoid prolonging the discussions respecting the technical problems raised by Mr. Hoover’s proposal, the French and American negotiators have agreed that this proposal is accepted subject to agreement being reached on the ways and means of its application. In order to achieve this agreement the French Government will immediately convoke a conference in Paris of those signatories of the Young plan who are particularly interested in the suspension of German payments. This decision will be made public after the meeting of the French and American negotiators at 7 p.m. this evening.’

¹ No. 140.

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 6, 8.55 p.m.)
No. 102 Telegraphic [C 4847/172/62]

BERLIN, July 6, 1931, 6.45 p.m.

My telegram No. 97.¹

United States Ambassador informs me that, although German Government remained very reluctant to allow statement to appear, United States Government were very anxious that it should, and its issue by latter was arranged after prolonged negotiations here on Sunday.²

¹ No. 122.

² The German statement communicated to the United States Government was published on July 5. The statement referred to German expenditure in the following terms: 'In view of fears which have sprung up in some circles that the amounts released in the German budget by relief from reparation payments might be used to increase armaments, I [i.e. Dr. Brüning] declare that an increase in the appropriations for the army and navy during the holiday year has never been contemplated nor will it take place'.

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 7, 9.0 a.m.)

Nos. 401 and 402 Telegraphic [C 4861/172/62]

WASHINGTON, July 6, 1931, 2.19 p.m.

I was called to State Department this morning and had a long discussion with Mr. Castle and Mr. Mills.

Latter began by stating that new proposal regarding deliveries in kind had been suggested to them by Mr. Parker Gilbert and enquiring views of His Majesty's Government. Proposal is that uncovered balance of unfulfilled contracts should be carried out by the German manufacturer, but that he should receive no payment from any source during current year but should be entitled for the next's (1932-33) unconditional annuity. I pointed out that this proposal might give rise to partial [*sic*: ? practical] difficulties, inasmuch as the manufacturer would have difficulty in financing himself during current year, that it would necessarily involve claim by His Majesty's Government for proportion of payments under Reparation Recovery Act, and a proposal which would not benefit German economy as opposed to German budget was hardly in conformity with intention of President's offer. Mr. Mills was inclined to agree, but stressed comparative smallness of amounts at stake, and thought that some arrangement of the kind might be necessary to enable agreement to be reached with France. I said only views of His Majesty's Government which I was authorised to express were those stated in your telegram to me No. 445.¹

2. I then referred to proposal to refund postponed annuities over a period of twelve years and stated case given in your telegram to Paris No. 176.²

¹ See above, No. 88, p. 107, note 1.

² No. 135.

Some considerable discussion ensued over this. Mr. Mills said that it had been contemplated that priority might be given to refunding payments in respect of unconditional part of postponed annuity, but that refunding payments in respect of conditional part should rank after the then current year of unconditional payments. But he . . .¹ his views were uncertain, and I think problem had not been thought out at all. In any case, they quite agreed that even in the best position principle of refunding dropped annuity must prejudice position of beneficiaries other than France under Young plan.

3. As regards proposal for reinvestment of unconditional annuities in German railway bonds, they told us that this was a proposal slipped in by French at the last moment and that they had instantly rejected it.

4. We² considered that views of United States Government and of His Majesty's Government were substantially identical on question of private funds for relief of Southern and Eastern Europe.

5. We said that as regards guarantee fund His Majesty's Government must preserve all their rights as regards any interpretation placed upon wording of Young plan.

¹ The text here is uncertain.

² Mr. Bewley accompanied Sir R. Lindsay to the State Department.

No. 144

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 7, 3.0 a.m.)

No. 403 Telegraphic [C 4862/172/62]

WASHINGTON, July 6, 1931, 3.25 p.m.

Following is continuation of my immediately preceding telegram¹:—

6. Finally, I uttered a strong protest in the sense of the last words of your telegram mentioned above. I said that His Majesty's Government had accepted the President's scheme on the supposition that it was a simple plan involving postponement of annuities due this year to next year and so on to the end. On this assumption His Majesty's Government have cordially accepted it, had set to work to make it a success, and had committed themselves to first steps for its execution. They were now confronted with something completely different, which not only introduced great complications, but also affected their interest in very material manner. This declaration caused, I think, some disquietude. Mr. Castle indicated that he entirely agreed with its reasonableness. Mr. Mills then said it seemed to him that even if United States Government could come to terms with French Government the discussions would have to be begun all over again with His Majesty's Government. He asked whether my protest was official. I said that I had no instructions to make any official protest or to predicate² the action which His Majesty's Government would take, but that these were views which were

¹ No. 143.

² This word appears to be an error in transmission, and should read 'predict'.

being expressed to Mr. Mellon, and I was able to express them to State Department also. Mr. Mills said he thought that they should have been expressed earlier.

7. A long discussion followed as to any possible alternative procedure. Although they began by telling us that President had decided that, in view of acute situation in Germany, it would be impossible for him now to proceed with any alternative plan, nevertheless they discussed possible alternatives, namely, (1) to declare that offer was still open, and that, as difficulties had arisen in Europe as to its execution, they would leave it to the European Powers to settle all outstanding questions; (2) to restate the offer separately and individually to each Power.

8. With regard to these, I deprecated No. (1). I said that it was rather unworthy of the United States Government, having made their offer and pressed it strongly, now to withdraw and wash their hands of its further execution. Moreover, such a scheme was calculated to involve maximum amount of difficulties and delay, and it seemed to me that Germany could not possibly be kept erect until all the discussions were over.

9. With regard to No. (2), I said that if President's offer was to be restated in any manner, then I must urge very strongly that an explicit stipulation should be inserted that procedure was to be by postponement of suspended annuity and not by refunding it over any period of years. I said I was quite alive to difficulties of changing a horse in middle of the jump, and I was unable to estimate whether any measures should be taken to maintain German credit pending discussion of very much simpler alternative which was thus foreshadowed. Mr. Mills said that, in his opinion, German credit could not be maintained for more than three or four days.

10. I tried to elicit what Mr. Mills and Mr. Castle would do next, but did not succeed. I imagine they will have to consult with the President. They promised to send for me when they had anything further to communicate.

No. 145

Sir R. Lindsay (Washington) to Mr. A. Henderson

(Received July 7, 9.30 a.m.)

No. 404 Telegraphic: En clair [C 4856/172/62]

WASHINGTON, July 6, 1931, 2.19 p.m.

Following statement was issued by Acting Secretary of State to press this morning:—

'We have no misgivings that President's plan will become effective. French Government did not accept our note of 4th July which was published 5th July as basis for an arrangement. They have raised several new questions which have not been hitherto discussed, many of which involve relations between signatories to Young plan, to which we are not a party, and which, of course, we cannot pretend to be able to negotiate. They also ask our Government to undertake obligations in the providing of loans to other

Governments and to facilitate the floating of securities in the United States, which questions lie entirely outside of the province of our Government. These suggestions are due, no doubt, to a misunderstanding of our governmental relations to the financial machinery of the country.

'French Government insists that reparations in kind, which involve about 20 million dollars so far as France is concerned, should be distinguished from other reparations. It is not so much the 20 million dollars which is involved as the fact that we have already been notified from four or five other Governments that they must make exceptions to the President's plan if exceptions are made to anyone. And thus the plan would become very seriously whittled away.

'Reparations in kind, however, are a very technical question, as are the other questions raised by the French Government. They all arise from the difficulties lying in the complex character of individual rights to reparations from Germany under the Young plan.

'Mr. Mellon has not felt that we could accept the French note as a basis for settlement, as it raised such new and serious difficulties and did not accept President's plan in principle, which has been done by all the other important Governments. We have, however, communicated to Mr. Mellon a new and simplified formula which we believe meets the entire situation, as it simply provides that we agree in principle on certain major questions, and that all technical questions and reparations in kind and every other question should be referred to a committee of Treasury experts of the different Powers, who should arrive at a solution of them within the broad spirit of the President's proposal. We feel that it will offer a constructive solution to the various difficulties.'

No. 146

*Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 7, 9.0 a.m.)*

No. 405 Telegraphic [C 4859/172/62]

WASHINGTON, July 6, 1931, 4.46 p.m.

Berlin telegrams Nos. 97 and 100.¹

I urged Acting Secretary of State to authorise United States Ambassador to take the initiative in speaking to German Government about customs union. He expressed considerable annoyance at German refusal to help, but also emphasised acute difficulties to the United States Administration if the German Government, to defend itself against criticism at home, announced that it had acted under pressure from United States Government. This morning he told me he had telephoned to United States Ambassador in Berlin authorising him to seek to draw German Minister for Foreign Affairs on to ground which would enable him to state United States views about customs union.

¹ Nos. 122 and 128.

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 7, 7.30 a.m.)

No. 407 Telegraphic [C 4853/172/62]

WASHINGTON, July 6, 1931, 6.33 p.m.

Acting Secretary of State has telephoned to say that French and American negotiators have to-day reached agreement in Paris. He could not give me details of agreement, but he says that French have agreed that any committee of experts called to settle them must act within spirit of President's proposal.

He urges very strongly now that His Majesty's Government shall immediately summon a conference to carry settlement further. President thinks this action may have considerable effect in supporting German credit, and hopes that it may be taken without any delay. He even hopes that you may act without consideration of terms of agreement now reached in Paris. Moreover, French Prime Minister hinted to Mr. Mellon that conference might be called in Paris. United States Administration feel strongly that London would be by far the better place in every respect, and hopes that you will forestall French Government in issuing invitations.

No. 148

Lord Tyrrell (Paris) to Mr. A. Henderson
Unnumbered Telegraphic: by telephone [C 4851/172/62]

PARIS, July 7, 1931, 1.15 a.m.

My immediately preceding telegram.¹

Following is the text of agreement which has just been initialled by French and American negotiators respecting President Hoover's proposal:—

'After exchange of views, the French Government states that it is in agreement with the United States on the essential principle of President Hoover's proposal and on the following proposition, which may be expressed thus:—

- '1. The payment of inter-governmental debts is postponed from 1st July, 1931, to 30th June, 1932.
- '2. However, the Reich will pay the amount of the unconditional annuity. The French Government agrees, so far as it is concerned, that the payment thus made by the Reich shall be placed by the Bank of International Settlements in guaranteed bonds of the German railroads.
- '3. All suspended payments shall be subject to interest in accordance with the condition suggested by the American Government, payable in ten annual instalments beginning with 1st July, 1933.
- '4. The same condition shall apply to the bonds to be issued by the German railroads.

¹ The reference appears to be to No. 141.

'On the three points which it is recognised do not directly concern the American Government, the French Government makes the following observations:—

- '(a) A common action by the principal central banks acting through the medium of the Bank of International Settlements shall be organised to assist the countries of Europe which would be particularly affected by the postponement of the payments as proposed.
- '(b) A preliminary understanding should take place between France and the Bank of International Settlements in order that France shall not supply the guarantee fund provided for in the Young plan in the event of the moratorium except by monthly payments in accordance with the needs of the Bank of International Settlements after actual transfer of payments by Germany.
- '(c) The question of deliveries in kind and the various modifications which will become necessary as a result of the application of the American proposal and the present agreement shall be studied by a committee of experts named by the interested Powers which shall reconcile the material necessities with the spirit of President Hoover's proposals.

'France reserves the right to request of the German Government indispensable assurances concerning the utilisation for exclusively economic purposes of the sums freed to the Reich budget.'

A statement is contained at the end of the communiqué with which this agreement has been issued to the press to the effect that it has been examined by President Hoover, who finds that it is in accordance with his proposal, but that he cannot speak for the other Powers concerned.

American negotiators had no very clear indication of French Government's views on future negotiations between signatories of the Young plan, with which they maintain that they are in no way concerned, but they are under the impression that the French Government contemplate a meeting of experts in Paris.

On learning the above from the American Embassy, I have addressed an urgent letter to M. Briand informing him that it is not possible for His Majesty's Ministers to attend conference here owing to parliamentary sessions.

CHAPTER III

Further Correspondence with regard to the German financial crisis: Mr. Henderson's visit to Paris: the London Conference: visit of Mr. MacDonald and Mr. Henderson to Berlin. (July 7-31, 1931)

No. 149

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 178 Telegraphic: by telephone [C 4860/172/62]

FOREIGN OFFICE, July 7, 1931, 11.45 a.m.

His Majesty's Government consider that a point has now been reached when a conference should now immediately be assembled in London in accordance with the invitation that they have already issued.¹ They think that this conference might in the first instance be composed of experts representing the various countries, acting in consultation with, and *ad referendum* to, their responsible Ministers. But as the issues involved are of considerable magnitude, and are in some cases of political as well as technical importance, it will in their view be essential that there should also at an early stage be a meeting of those Ministers. They therefore propose that the conference should meet in London as soon as possible, and that the experts should assemble in London on Monday, July 13. The meeting of Ministers should not take place until a week later. This would not interfere with the Paris and Berlin visits.²

¹ See No. 116.

² Sir R. Lindsay was instructed at 1 p.m. on July 7 to communicate the substance of this telegram to the United States Government.

No. 150

Lord Tyrrell (Paris) to Mr. A. Henderson

No. 152 Telegraphic: by telephone [C 4863/172/621]

PARIS, July 7, 1931, 1.30 p.m.

Your telephone message of this morning.¹

There was never any question of a conference as put out by Havas.² Our original proposal for a conference was made in the event of a breakdown of Franco-American negotiations. Their success had, therefore, not raised the question of a conference here. If it had, the French Government would have responded to our civility by consulting us.

¹ No. 149.

² See No. 141.

M. Briand received your proposal very favourably, and in my presence made an appointment with President of Council, whom he promises to urge to accept it. I have been promised an answer by this evening, as, in M. Briand's opinion, the Cabinet will have to be consulted.

No. 151

Mr. A. Henderson to His Majesty's Representatives at Washington, Paris, Rome, and Brussels
Telegraphic [C 4780/172/62]

FOREIGN OFFICE, July 7, 1931, 5.30 p.m.

Berlin telegram No. 99¹ of July 3: Assurances given by Dr. Curtius to Mr. Newton regarding intention of German Government not to reduce total yield of Emergency Decree.

Please inform Government to which you are accredited of assurances given by Dr. Curtius to Mr. Newton, and add that German Government are being informed of action you are taking.

(Addressed to Washington, No. 506; Paris, No. 180; Rome, No. 198; and Brussels, No. 38.)

¹ No. 125.

No. 152

Mr. A. Henderson to Mr. Newton (Berlin)
No. 138 Telegraphic [C 4780/172/62]

FOREIGN OFFICE, July 7, 1931, 5.30 p.m.

Your telegram No. 99 of July 3.

I have instructed His Majesty's representatives at Washington, Paris, Rome and Brussels to inform Governments to which they are accredited of assurances given you by Dr. Curtius. Please notify German Government accordingly.

No. 153

Mr. A. Henderson to Sir R. Lindsay (Washington)
No. 507 Telegraphic [C 4777/172/62]

FOREIGN OFFICE, July 7, 1931, 10 p.m.

Berlin telegram No. 97¹ of July 3: Statement issued by German Government regarding use to be made of sums released under Hoover proposal.

Actual statement² communicated by German Government to United States Government, which was published in press here yesterday, is, in the opinion of His Majesty's Government, quite inadequate. As German Government may, if this statement is allowed to pass without comment, assume or profess to assume that they have satisfied the Powers chiefly concerned, the

¹ No. 122.

² See No. 142, note 2.

falsity of this assumption should in our view be explained to German Government without delay.

Our object has been to obtain voluntary assurances from German Government that (1) this year's military budget should be *reduced* and this year's expenditure on second pocket battleship cancelled; (2) that the £80 million granted to Germany under President's proposal should be devoted to innocuous objects; (3) that projected Austro-German Customs Union should lapse—that is, it should be allowed to drop. A private assurance to this effect could be given. There is no need for 'withdrawal'; we do not need or expect any humiliating renunciation.

As regards (1), the statement evades the issue altogether. I hope that Mr. Newton is misinformed when he reports in his telegram No. 94¹ that United States Government consider the assurance not to *increase* military and naval expenditure to be a possible alternative to original proposal for reduction of expenditure. Any increase must, in any circumstances, have been obviously out of the question. His Majesty's Government still hold that further effort should be made to induce German Government to accept original proposal and trust that they can count on co-operation of United States Government in this matter. Moreover, you will have seen from paragraph 7 of Berlin telegram No. 94 that Dr. Curtius has informed Mr. Newton confidentially that, 'as part of various savings called for by the last budget and recent emergency decree, it had been decided to cut down naval and military expenditure by some 50 million marks'. This is a most valuable statement, of which you should inform United States Government. It should, in our opinion, be given by the German Government at least as great publicity as their already published statement.

As regards (2), His Majesty's Government are content to await the views of the French and Italian Governments as to whether the published statement is sufficiently explicit.

As regards (3), my telegram No. 494² will already have shown you our desire to obtain the co-operation of the United States Government on this point.

You should communicate views expressed in this telegram to United States Government and invite them, if they share them in principle, to take appropriate action in Berlin in co-operation with ourselves. You should at the same time explain that His Majesty's Government have no idea whatever of extorting assurances from German Government as a condition of their implementing the President's proposals, a course which you rightly pointed out (see last paragraph of your telegram No. 399³) His Majesty's Government had refused to take and against which they had protested on a previous occasion. His Majesty's Government wish to obtain voluntary assurances on these points as representing Germany's minimum contribution to the re-establishment of confidence—both economic and political—in Europe.

(Repeated to Berlin, No. 139; Paris, No. 181; Rome, No. 199; and Vienna, No. 66.)

¹ No. 120.

² No. 131.

³ No. 133.

Mr. A. Henderson to Sir W. Erskine (Warsaw)

No. 458 [C 4901/173/18]

Sir,

FOREIGN OFFICE, *July 7, 1931*

In the course of a conversation this morning the Polish Ambassador referred to the unsatisfactory state of German-Polish relations, and said that he very much hoped that the Prime Minister and I would take the opportunity of our visit to Berlin to impress upon the German Government the necessity of maintaining good relations with Poland.

M. Skirmunt said that of late the German Government had shown themselves particularly difficult. They had refused to renew the Commercial Agreement between the two countries, as well as an agreement in regard to timber. In the matter of the agreement as regards rye, they had actually denounced an arrangement which existed.

I told M. Skirmunt that I would take note of the wishes which he had expressed to me, but I impressed upon him that the Polish Government, on their side, must contribute to ease the position, and I referred in particular, in this connexion, to the question of German minorities in Poland.

I am, &c.

ARTHUR HENDERSON.

No. 155

Mr. Newton (Berlin) to Mr. A. Henderson

(Received July 8, 9.0 a.m.)

No. 105 Telegraphic [C 4902/172/62]

BERLIN, *July 7, 1931, 8.15 p.m.*

Press generally is thoroughly satisfied, and it is felt that revision of Young plan is now a certainty. 'Germania', the Chancellor's newspaper, states that neither France nor America can be said to have gained victory. National Socialist, and to some extent Hugenberg, newspapers show no gratitude for help given to Germany, for obvious reason that it interferes with political campaign against tribute payments. Remainder of Nationalist press is scarcely more reasonable.

No. 156

Mr. Newton (Berlin) to Mr. A. Henderson

(Received July 8, 9.0 a.m.)

No. 106 Telegraphic [C 4903/172/62]

My telegram No. 104.¹

BERLIN, *July 7, 1931, 8.30 p.m.*

After Cabinet meeting to-day Minister of Finance received press and commented on Government declaration to the following effect:—

The last fortnight has put heavy strain on German economic system. Great

¹ Not printed. This telegram reported in full the statement issued by the German Government.

damage has been done, damage which it is not easy to make good. Losses which Germany has suffered since Reichstag election of last year amount to 3 or 4 milliard marks in foreign currency, or twice as much as reparations payments for one year. The Government will apply the money saved from Hoover plan to consolidate budget and to repay credits. This will indirectly help trade. Paris solution is not yet complete. It is to be hoped that necessary negotiations will lead to an improvement in the political atmosphere between France and Germany. For this purpose it will be necessary to negotiate in the Hoover spirit, and there should be no deviation from Hoover principle that Germany should not pay a penny of reparations during the coming year. Deliveries in kind would cause difficult negotiations. Many contracts contain a clause providing for their continuance even outside reparations. Many other continuing contracts could be financed from blocked balances at the Bank of International Settlements; but there was still a large quantity of deliveries which would have to be financed by some method which would have to be arrived at during negotiations.

Minister of Finance concluded by saying that as regards further development of reparation matters there would be no opportunity for taking fresh steps before English and American visits.

No. 157

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 8)
No. 107 Telegraphic [C 4930/172/62]

BERLIN, July 7, 1931

Your telegram No. 136.¹

As regards general reaction, see my telegrams Nos. 104,² 105³ and 106⁴.

On point 4 I should not anticipate any difficulty, except, perhaps, as regards a guarantee by Reichsbank, which raises a novel principle and would presumably require legislation.

On point 7, see statement of Minister of Finance as reported in penultimate paragraph of my telegram No. 106.

On point 8, declaration of German Government telegraphed in my telegram No. 106 confirms assurances already given to United States Government. French request for further confirmation would, I fear, provoke irritation and suspicion that attempts would be made to extend their scope.

(Repeated to Paris.)

¹ Not printed. In this telegram of July 6 Mr. Newton was asked whether he could forecast the probable German reaction to the Bases of Agreement (and especially to those numbered 4, 7, and 8) reported in No. 134.

² Not printed: see No. 156, note 1.

³ No. 155.

⁴ No. 156.

Lord Tyrrell (Paris) to Mr. A. Henderson
(Received July 8, 10.0 a.m.)
No. 154 Telegraphic: by bag [C 4897/172/62]

PARIS, July 7, 1931

My immediately preceding telegram.¹

I venture again to emphasise the extent to which, so far as France is concerned, the whole politico-economic situation in Europe is conditioned by the necessity of a clear understanding of permanent German intentions.

2. On the surface the position is discouraging; but it remains true that a profound and rapid change could be effected by definite and convincing proof being given by Germany that she means to co-operate with France. If this proof were given, all the French money that Germany, and Austria too, require would become available for the simple reason that investment would be abundant, regular and of practical permanence, the latter quality being based on the reign of confidence. Such French investment would be enlisted by the simple fact of the attractive rates of interest available in a country which, though the strongest national economy in Europe, is yet ever requiring further funds for development and expansion.

3. Enlightened economic and political opinion in France tacitly realises the inevitable fact of German economic predominance in Europe; but unless Germany will abandon her ceaseless demands for changes in political conditions which are not in themselves obstacles to economic progress, France will not supply money which is spent by Germany on an economic equipment out of all proportion to markets restricted by political insecurity.

¹ Not printed. This telegram reported comments by MM. Laval and Flandin to press representatives on the Franco-American agreements.

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 8)
No. 408 Telegraphic: En clair [C 4984/172/62]

WASHINGTON, July 7, 1931

As regards opinion here, following points in President's statement published to-day announcing that agreement had been reached with French would seem to be the most symptomatic:—

1. United States Government's action must be ratified by Congress.
2. Burden most seriously oppressing Germany and Central Europe will be immensely lightened.
3. Sacrifices have been made by all though all are suffering from world depression.
4. During year devoted to economic upbuilding world must give solemn

thought to causes of depression, which consist mainly in lack of confidence.

5. This in turn is largely due to armaments. Total of inter-governmental payments involved is over 800 million dollars yearly, but cost of armaments is several times more.

In press note sent July 3¹ I thus analysed opinion here. Universal approval of President's plan was due to hope that it would somehow lead, mainly by restoring optimism, to end of depression from which United States itself is suffering. No real change of feeling on *moral* issues involved for United States in debts reparations issue. Liberal press and increasing number of economists have for some time been urging revision of debt payments, but it is too early yet to say that their doctrines have been accepted, though they have now been put to the test. That reparations represent an intolerable burden for Germany seems generally felt. That without receipts from Europe England would be hard put to it to pay her debt to United States might be admitted. There is great patience with France.

Since that was written Hamilton Fish has urged necessity of international co-operation to save capitalist system from spread of communism which would result from German collapse, and probably there are not a few who have been feeling lately that dawning possibility of Russia's five-year plan proving an economic success, while in capitalist countries prosperity has disappeared, has, as it were, put whole capitalist system on trial.

World Alliance for Friendship through Churches seems to think time has come when United States must not only preach disarmament to Europe but should offer practical contribution to new world order in form of debt reduction. But there seems yet to be little or no recognition that real evil of inter-governmental payments consists in their arbitrary nature, and in fact that they conflict with all sound economic principles. These payments still seem to be regarded as burdensome only in the same way as expenditure on armaments is, and it has been frequently pointed out that for ex-Allies they represent but a fraction of their national budgets.

¹ Not printed.

No. 160

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 155 Telegraphic: by telephone [C 4898/172/62]

PARIS, July 8, 1931, 9.30 a.m.

My telegram No. 152.¹

Following is the reply of the French Government:—

'The British Ambassador was good enough to communicate this morning to M. Briand a suggestion of the British Government on the same lines as that suggested a week ago with a view to a meeting of a conference in London.

¹ No. 150.

'As we gather, this conference would be composed of a committee of experts negotiating *ad referendum* to their Governments and a conference composed of the Ministers of the interested Powers, having regard to the possibility of political questions coming up for discussion.

'The proposed dates would be respectively Monday, the 13th July, for the committee of experts, and Monday, the 20th July, for the conference.

'The French Government consider that in the view of the British Government the object would be to adapt the Hoover proposal to the Young plan. The French Government are disposed, in principle, to accept the British suggestion. But the French Government consider that the dates suggested for the two conferences are too close to one another by reason, on the one hand, of the different engagements of the Governments concerned (visit to Paris and Berlin), and, secondly, having regard to the fact that the discussions between the experts would, in all probability, last longer than a week.

The French Government feel that, having regard also to the French national fête on the 14th July, it would be advisable to fix the meeting of the experts for the 17th July.

'As regards a meeting of the conference of Ministers, this could be decided in the light of the developments of the work of the committee of experts.

'Before giving a final reply, the French Government would be glad to know whom the British Government propose to invite to participate in the conference and what would be the precise programme of the conference. In the opinion of the French Government, the committee of experts should be a restricted committee composed only of British, Belgian, French, Italian, Japanese, German and, if possible, American representatives.

'This committee might constitute two sub-committees, of which the first would be called upon to settle the questions which interest exclusively the creditor Powers, and the second, those questions which concern the creditor Powers on the one hand and Germany on the other.'

No. 161

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 182 Telegraphic: by telephone [C 4898/172/62]

FOREIGN OFFICE, July, 8, 1931, 1.15 p.m.

Your telegram No. 155.¹

1. We should have preferred a meeting on July 13 as originally proposed, as the next German payment is due on July 15, and we had hoped that the experts would have been in a position to notify, on behalf of their Governments, the suspension of this payment.

We agree, however, with the French proposal to defer the meeting of experts till July 17, provided that the French Government agree to notify the

¹ No. 160.

Bank of International Settlements that provisionally, and pending result of conference, no payment will be required of German Government on July 15.

2. We agree to their proposal leaving date of meeting of Ministers to be fixed later.

3. We agree with the French proposal as to participation in the conference, *i.e.*, French, British, Belgian, Italian, Japanese, German and, if possible, American representatives.

4. The programme and object of the conference would be to consider and recommend the measures necessary to give effect to President Hoover's proposal.

5. We agree with the French suggestion that the Committee of Experts should constitute two sub-committees for the purpose named.

6. We therefore proposed to issue to-day the invitation for the experts to take part in a meeting at the Treasury on Friday, July 17, at 11 a.m.

No. 162

Lord Tyrrell (Paris) to Mr. A. Henderson

Unnumbered Telegraphic: by telephone [C 4952/172/62]

PARIS, July 8, 1931, 7.45 p.m.

In accordance with instructions, a communication was made to the press this afternoon. The Embassy also made communication to the Minister for Foreign Affairs regarding the proposed conference. Minister for Foreign Affairs has had to consult the President of the Council regarding proposals of His Majesty's Government, and it should not be taken that French Government agree until Embassy receive a definite reply, which they hope to be able to telephone early in the morning.

No. 163

Lord Tyrrell (Paris) to Mr. A. Henderson

Unnumbered Telegraphic: by telephone [C 4953/172/62]

PARIS, July 8, 1931, 10 p.m.

Your telegram No. 182.¹

French Government agree on the different points raised subject to the following observations:—

'In regard to formula proposed in paragraph 1 of Foreign Office message, it must be understood that procedure laid down in Franco-American agreement for payment of unconditional annuity will itself be applied on July 15. Accordingly French Government propose to advise Bank of International Settlements that on July 15 German Government will not have to pay conditional annuity, and that unconditional annuity will immediately be placed by Bank of International Settlements at the disposal of Reichsbank in return for a provisional receipt which will be changed against

¹ No. 161.

bonds provided for by Franco-American agreement as soon as conditions of issue of these bonds have been decided.

'This procedure conforms to suggestion made by American Under-Secretary for Treasury and by Governor of Federal Reserve Bank to French financial attaché at Washington. French Government suppose His Majesty's Government will have no objection to it.

'French Government must explain that above notification and suspension of July 15 will only take effect if, by that date, Board of Management of Bank of International Settlements has given its agreement without reserve to French Government's request relative to guarantee fund and set out in paragraph (b) of section 2 of Franco-American agreement.

'Under these reserves French Government agree with His Majesty's Government that experts' meeting shall take place on July 17 under conditions proposed.'

No. 164

Sir R. Lindsay (Washington) to Mr. A. Henderson (Received July 8)
No. 411 Telegraphic [C 4955/172/62]

WASHINGTON, July 8, 1931

Your telegram No. 178¹ to Paris and your telegram No. 503² to me did not convey invitation to the United States Government to attend meeting of experts. I presume you desire their presence and they are ready to be represented. Please authorise me to issue invitation. Representative would be the United States Ambassador, Brussels. Acting Secretary of State says he would attend more or less as an observer, but will be prepared, as and when necessary, to say whether any proposal is or is not within the spirit of the American scheme.

¹ No. 149.

² Not printed. See No. 149, note 2.

No. 165

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 9, 9.30 a.m.)
No. 413 Telegraphic [C 4972/172/62]

WASHINGTON, July 8, 1931, 6.25 p.m.

Your telegram No. 507.¹

I have to-day made representations to Acting Secretary of State as instructed and have communicated substance of Paris telegram No. 154,² but without much effect, and I fear that His Majesty's Government must make up their mind that for the present United States Government will not go materially any further than they have gone.

They entirely share your views, but cannot ignore their own difficulties. You will have observed that in their declaration about economising of July 7

¹ No. 153.

² No. 158.

German Government refer to assurances given to United States Government. This lends point to apprehensions expressed by Mr. Castle in the first paragraph of my telegram No. 405.¹

Acting Secretary of State thinks that Mr. Stimson will be able to speak frankly when he meets German Ministers, but meanwhile I fear that there is nothing more to be hoped for from here.

¹ No. 146.

No. 166

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 156 Telegraphic: by telephone [C 4971/172/62]

PARIS, July 9, 1931, 11.0 a.m.

My unnumbered telegram of last night.¹

I have received an urgent personal and confidential letter from M. Berthelot of which following is substance:—

1. French have gained impression from messages from London that His Majesty's Government intend to reject Franco-American agreement and demand application of Hoover plan in its entirety. French do not see that their proposals for guarantee fund imply any fresh burden for British Exchequer; and, if their impression of British attitude is correct, 'failure' of the experts' meeting 'is certain, and it would be useless for us to go to London'. M. Berthelot is the more anxious as to situation in that he 'knows from authoritative source that British Treasury acted constantly on Washington during Paris negotiations and preached an uncompromising attitude and worked against the unconditional and [*sic*] reparations'.

2. One of the reserves made by French Government in accepting Hoover proposal was that preliminary agreement should be reached between France and Bank of International Settlements restricting guarantee fund. Chairman and German members of board of management of bank are ready to accept this agreement, which does not harm interests of any creditor Power and is in accord with Young plan. French hope His Majesty's Government will urge British members to accept, since 'French Government attach great importance to preliminary settlement of this question and insoluble difficulties would be raised should it be reopened'.

¹ No. 163.

No. 167

Mr. A. Henderson to Lord Tyrrell (Paris)
No. 183 Telegraphic [C 4953/172/62]

FOREIGN OFFICE, July 9, 1931, 3 p.m.

Your unnumbered telegram of yesterday.¹

In regard to first condition formulated by French Government and relating to point (2) in Franco-American agreement, this would appear to be a matter

¹ No. 163.

to be settled between the French and German Governments. We are for our part notifying the Bank for International Settlements that no payment should be demanded from Germany on July 15. I think you should know that according to our information Germany is not in a position to make any payment in foreign currencies on July 15, and our notification is therefore mere recognition of a fact.

In regard to second French stipulation, this is no part, as indicated in your telegram, of Franco-American agreement. It is, in fact, expressly described as one of the three points 'which it is recognised do not directly concern the American Government'. It is, in fact, one of the points that would normally require to be discussed between the creditor Powers at the experts' meeting, and to make this a condition of that meeting taking place would look like prejudging a claim which necessarily affects the rights of other Powers, and which in the view of His Majesty's Government the Bank for International Settlements is not entitled to decide.

His Majesty's Government therefore earnestly trust that French Government will not persist on this point in a stipulation which must necessarily form part of the subject-matter of the meeting, and so further delay a meeting which is a matter of urgency, particularly as His Majesty's Government have already accepted the later date proposed by the French Government, in spite of the financial situation in Germany, which grows daily more precarious, and is now, according to our information, becoming desperate.

Since the above was written your telegram No. 156¹ has been received. His Majesty's Government are naturally prepared to give full and sympathetic consideration to the French proposal regarding the guarantee fund provided it can be demonstrated, as stated by French Government in your telegram under reference, that their proposals do not imply any fresh burden on British Exchequer, or harm the interests of any creditor Power, *and that our interests are adequately safeguarded in other respects*. But demonstrations on these points can surely best, and perhaps only, be effected at the experts' meeting. If, however, the French Government desire an opportunity of exploring the position in advance of the experts' meeting there would seem to be nothing to prevent them from getting into touch with our experts at once.

¹ No. 166.

No. 168

Mr. A. Henderson to Lord Tyrrell (Paris)

No. 185 Telegraphic [C 5003/172/62]

FOREIGN OFFICE, *July 9, 1931, 5.45 p.m.*

My telegram No. 183¹ of July 9: Hoover plan.

The following explanation of our difficulty in regard to the Guarantee Fund is sent for your own confidential information:—

The Guarantee Fund was the counterpart in the Young plan to the French

¹ No. 167.

allocation on the unconditional annuities, and if the French Government now wish their obligation to be modified they should be prepared to agree to revision of the distribution arrangements, which appear likely in present conditions to operate most unfairly to other Powers. The proposal which His Majesty's Government have in mind is that the unconditional annuities should be divided between the various creditor Powers in proportion to their respective shares in the German annuities, thus making any Guarantee Fund unnecessary. The immediate financial effect on French Government would be precisely the same as that of their proposal, and it appears to us that a solution on these lines would enable the requirements of both Governments to be conciliated. But if we accept French proposal about Guarantee Fund, it would make it more difficult to put forward our alternative. And it seems to us most unreasonable that we should be asked to make concession to French views about Guarantee Fund without any assurance that our views will be met on other points.

No. 169

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 510 Telegraphic [C 4955/172/62]

FOREIGN OFFICE, July 9, 1931, 4.40 p.m.

Your telegram No. 411¹ of 8th July: Hoover plan.

We certainly desire presence of United States experts. But it has not yet been possible to issue any invitations owing to discussions on points of date and procedure which are proceeding with French Government.

¹ No. 164.

No. 170

Mr. A. Henderson to Mr. Newton (Berlin)

No. 145 Telegraphic [C 5002/172/62]

FOREIGN OFFICE, July 9, 1931, 10.45 p.m.

In conversation with Sir R. Vansittart yesterday German Ambassador expressed his personal apprehension (which was, however, he knew, shared by Berlin, with whom he has been in telephonic communication) at the idea of the forthcoming meeting of experts being followed at an early date by meeting of Ministers. He said that Germany needed time to settle down and that a meeting of Ministers would result in all kinds of questions being brought in, particularly political ones. This would give the extremists a fresh opportunity of attacking the Chancellor, and he therefore hoped that the meeting might be deferred as long as possible, even for several months. Sir R. Vansittart replied that present proposals did not provide for any definite date, which must depend to some extent on progress made by the experts. In any

case August and September would be very difficult and inconvenient months for such a meeting.

The Ambassador said that he quite understood, but he expressed the view that if political questions were to be treated, as indeed they must, it should be through the diplomatic channel.

No. 171

*Mr. A. Henderson to Earl Granville (Brussels)*¹

No. 39 Telegraphic [C 5001/172/62]

FOREIGN OFFICE, *July 9, 1931*

Following letter has been addressed to-day by His Majesty's Treasury to President of Bank of International Settlements:—

'I am directed by the Lords Commissioners of His Majesty's Treasury to inform you that His Majesty's Governments in the United Kingdom of Great Britain and Northern Ireland, the Commonwealth of Australia, Canada, New Zealand, and the Union of South Africa and the Government of India have accepted in principle the proposal made by President Hoover on 20th June, 1931, for the suspension of inter-governmental payments (including reparation payments) falling due from 1st July, 1931, to 30th June, 1932. As you are aware, certain outstanding questions as regards the method of giving effect to President Hoover's proposal remain to be settled by the Governments concerned.

'In the meantime a monthly instalment of the German annuity falls due on the 15th instant, but, even if the German Government were in a position to transfer this instalment, to demand it would be manifestly inconsistent with the acceptance in principle of President Hoover's proposal.

'The above-mentioned Governments have, therefore, decided to refrain, in so far as they are concerned, from claiming any payment in respect of the instalments of both the unconditional and conditional annuity falling due on the 15th instant, without prejudice to the rights of the bondholders of the German External Loan, 1924, and the German Government 5½ per cent. International Loan, 1930, and on the understanding that the terms and conditions of the suspension of this payment and of the eventual transfer of the amount suspended will be those agreed upon hereafter for giving effect to President Hoover's proposal.

'The above-mentioned Governments feel it necessary to add that their decision has been taken with the object of giving immediate relief to the existing difficulties in Germany in accordance with President Hoover's proposal by a complete suspension of transfers (whether in cash or in kind), and it must not of course be understood as implying any derogation from the rights of these Governments under The Hague agreements in so far as any payments may be transferred by Germany.

¹ Also sent to His Majesty's representatives at Rome, No. 202; Tokyo, No. 89; Belgrade, No. 26; Lisbon, No. 101; Athens, No. 66; Bucharest, No. 21; and Warsaw, No. 29.

'The terms of this letter are being communicated to the other Governments signatory to The Hague Agreement of 20th January, 1930, and to the United States Government.'

Please communicate copy to the Government to which you are accredited and urge them to take similar action.

(Repeat to Washington, No. 512; Paris, No. 186; Berlin, No. 143; and Prague, No. 26.)

No. 172

Mr. A. Henderson to Mr. Newton (Berlin)

No. 741¹ [C 4977/172/62]

FOREIGN OFFICE, *July 9, 1931*

Sir,

The German Ambassador visited me this morning at the Foreign Office to convey the thanks of his Government for the valuable assistance rendered by His Majesty's Government.

Discussing the present situation and developments, I told the Ambassador that I felt the position could be still further improved could the German Government see its way to make some gesture in response to the assistance which was being afforded to Germany in her present difficult financial situation. I said that, looking to the ultimate advantage of Germany and the consolidation of peace on which we were engaged, had I been in the position of the German Government I should immediately have responded to the Hoover proposal by a gesture, such as the abandonment of work on the new German battleship, or an announcement to suspend action in regard to the Austro-German Customs Union, which would have convinced Europe of the sincerity of the desire of Germany to make her contribution to the general work of pacification. I emphasised to the Ambassador that it was quite useless to blink the fact that the move towards an Austro-German Customs Union had caused, and was still causing, anxiety in many capitals, and that until this anxiety was removed by some action on the part of Germany I felt that much of the good which had been occasioned by President Hoover's initiative would be dispelled.

The Ambassador did not seem disposed to question my opinion, although he asked me to appreciate the great difficulty in which the German Government found themselves placed, in view of the state of opinion in Germany as regards making gestures of the kind which I had in contemplation.

I told the Ambassador that none better than I appreciated the difficulties of the present German Government, but that at the same time we all had to face our difficulties and that, unless we did so, progress in the achievement of the aims we all had in view must be arrested.

I asked the German Ambassador to convey what I had said to Herr Curtius as advice which I felt, with all sincerity, was in the best interests of Germany herself, and I told the Ambassador that so keen was I on this particular aspect

¹ The substance of this despatch was telegraphed to Mr. Newton on July 9.

of the question, that I should revert to the matter in the course of my visit to Berlin next week. The Ambassador said that he perfectly appreciated the motives underlying the advice I was anxious to tender to the German Government and would not fail to convey to Herr Curtius what I had said.

I took the opportunity to explain to the Ambassador the reason why neither I nor the Prime Minister had found it possible to meet the suggestion of the German Government that the reception of the Prime Minister and myself by President Hindenburg should take place on the Monday morning instead of on the Saturday morning. In my wish to do everything possible to consolidate the improvement which had taken place in the international atmosphere of Europe since the Hoover proposal had been under discussion, I had arranged to return from Berlin via Paris with a view to taking an opportunity of seeing M. Briand so that the French Government should not consider that they were being left out in the cold. Having regard to the very limited time at my disposal and the necessity of returning to London as soon as possible, I felt that it would be very difficult to alter my existing plans, and I expressed the hope that in these circumstances it would not be greatly inconvenient to President Hindenburg to adhere to the arrangement which he had made to receive the Prime Minister and myself on Saturday. As regards the exigencies of the duties in London, I told the Ambassador that I understood that the Prime Minister was in very much the same situation as myself, and was anxious to leave Berlin some time early on Monday, since if the weather permitted he intended to return by air to London.

Baron von Neurath said he would convey the necessary explanation to the German Government. He said he quite understood the reasons which had decided my visit to Paris on my return from Berlin, with which he was in the fullest agreement.

I am, &c.

ARTHUR HENDERSON

No. 173

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 973 [C 4997/172/62]

FOREIGN OFFICE, *July 9, 1931*

Sir,

The United States Chargé d'Affaires called upon me at the Foreign Office this morning.

He said that the United States Government would be very glad to be kept informed of any developments which might take place in the course of my visit to Paris and Berlin. I promised Mr. Atherton that I would bear his request in mind. I should probably see Mr. Stimson while I was in Paris and in the event of any developments in Berlin would take care that the American Embassy was duly informed.

I said that I was looking forward to my meeting with Mr. Stimson as

I was very anxious to go over the ground of the disarmament problem with him.

As regards the forthcoming meeting of experts, I told Mr. Atherton that the present position was that the discussion would be confined to the financial issues involved, and that, as regards a wider political meeting of Ministers, no decision had been come to. This further meeting would depend on developments.

I am, &c.

ARTHUR HENDERSON

No. 174

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 157 Telegraphic: by telephone [C 5023/172/62]

PARIS, July 10, 1931, 2 p.m.

I communicated to M. Berthelot this morning Treasury letter to Bank for International Settlements text of which is contained in your telegram No. 186.¹

2. In communicating letter I spoke in sense of paragraph 1 of your telegram No. 183,² and told M. Berthelot that procedure laid down in point 2 of Franco-American Agreement (payment of unconditional annuity) seemed to be matter for settlement between French and German Governments. I added a proviso respecting adequate safeguarding of British interests.

3. I spoke also in sense of your telegram No. 183 regarding guarantee fund, and emphasised particularly fact that His Majesty's Government in the United Kingdom consider decision respecting this fund one for creditor Powers (*i.e.*, experts' meeting) and not for Bank for International Settlements. I explained that His Majesty's Government did not necessarily refuse French proposal respecting guarantee fund provided it could be shown that French were correct in stating that it would cast no new burden on British Exchequer or harm interests of any creditor Power. I also added a caution respecting adequate safeguarding of our interests in other respects.

4. Taking advantage of suggestion contained in last sentence of your telegram No. 183, I proposed to M. Berthelot, as easiest way of clearing up difficulties dealt with in paragraphs 2 and 3 above, that both points should immediately be discussed by experts of British and French Treasuries in advance of experts' meeting. M. Berthelot said he would consult Finance Minister on this suggestion, and I have just received reply that French Government will send M. Bizot to London by 4 o'clock train this evening for discussion of these two points with Sir F. Leith-Ross to-morrow morning, July 11.

¹ No. 171.

² No. 167.

No. 175

Mr. A. Henderson to Lord Tyrrell (Paris)
No. 194 Telegraphic: by telephone [C 5025/172/62]

FOREIGN OFFICE, *July 10, 1931, 2.0 p.m.*

His Majesty's Government have been receiving enquiries from other interested Powers in regard to the invitation which they are expecting to the experts' meeting. In view of material difficulties that would be entailed by further delay (*e.g.*, reservation of accommodation, date of departure of Italian delegation, &c.), it is not possible to defer issue of invitations till next week. His Majesty's Government are therefore issuing the invitations forthwith, and the more readily as they have learned with pleasure that, in response to their telegram No. 183¹ of yesterday, the French Government are sending M. Bizot over to-day to confer with Sir F. Leith-Ross. They feel confident that this discussion will remove any difficulty that French Government might have previously felt in regard to attendance.

¹ No. 167.

No. 176

Mr. A. Henderson to His Majesty's Representatives at Brussels, Rome, Tokyo, Berlin, Paris, and Washington.
Telegraphic¹ [C 5025/172/62]

FOREIGN OFFICE, *July 10, 1931, 2 p.m.*

His Majesty's Government are desirous of holding a meeting of financial experts at the Treasury in London on Friday, July 17, at 11 a.m., to consider and recommend measures necessary to give effect to President Hoover's proposal. Please inform Government to which you are accredited accordingly and in these terms, and invite them to be represented at this meeting.

A meeting of Ministers may be necessary later, but no definite date need yet be agreed upon for this.

We shall be glad to learn as soon as possible names of representatives appointed.

¹ No. 40 to Brussels; No. 204 to Rome; No. 90 to Tokyo; No. 147 to Berlin; No. 193 to Paris; No. 518 to Washington. These invitations were accepted by the Governments concerned.

No. 177

Mr. A. Henderson to His Majesty's Representatives at Paris, Washington and Berlin
Telegraphic¹ [C 5059/9/18]

FOREIGN OFFICE, *July 10, 1931*

The Treasury have given me the following appreciation of the situation in Germany, which I send for your confidential information:—

During the past seven years German economy has been based on foreign

¹ No. 196 (by bag) to Paris; No. 520 to Washington; No. 149 to Berlin.

credits, which during the past year have been withdrawn at increasing rate. In the middle of last month the Reichsbank was close to its legal reserve, and President Hoover's proposal only just averted the collapse of the exchange. It was hoped that the President's initiative would restore confidence, and this might well have been the case if his proposal had been promptly and wholeheartedly accepted by all Powers concerned. But the protracted discussions in Paris, the insistence on payment of unconditional annuities, and on repayment of postponed payments during the next twelve years have counteracted the good effect of the original pronouncement. The arrangements proposed in Franco-American agreement have not sufficed to restore confidence in future economic position of Germany, and it is to be feared that markets tend now to regard the year's moratorium as an opportunity to withdraw their remaining credits from Germany rather than as an inducement to leave them there, still less to increase them.

During the past fortnight the Reichsbank has only been able to maintain its legal reserve by means of temporary credits amounting to £30 million, which are now exhausted.

The president of the Reichsbank¹ last night approached the Bank of England first, for renewal of existing credits which are due for repayment on July 16, and, secondly, for new credit of very large amount to be shared between New York, London, Paris and other centres. The alternative was to issue excess notes without reference to reserve ratio, which, in view of competent authorities, was likely to precipitate an internal flight from the mark and might provoke the complete collapse of the exchange. Such a collapse in Germany, if it occurred, would carry with it most of the countries in Central Europe and involve obvious risks of social and political disorders. London, as financial centre with the greatest commitments in Germany, would be very seriously affected. But the Bank of England could not be expected to increase the very large credits it has already opened for Germany, Austria and Hungary, nor could Government action to support German exchange be considered. It appears that the only course is for the German banks to collect all resources available to maintain their position and for the Reichsbank, if necessary, to issue excess notes.

The situation is being discussed between representatives of central banks this afternoon, and the discussion will doubtless be continued at the meeting of the Bank for International Settlements, which takes place on Sunday² at Basle. While the Treasury hope that gloomier possibilities may not be realised, they feel no doubt that the German situation is very precarious. The difficulty is largely political, and it does not appear that any action that His Majesty's Government could take would materially help the situation.

¹ Dr. Luther came by air from Berlin on July 9. He saw M. Flandin and representatives of French banks on July 10 in Paris and returned to Berlin on July 11. Dr. Luther was informed during these visits that no further credits or guarantees could be given to Germany by the central banks in London and Paris.

² July 12. At this meeting the view was taken that a remedy for the situation was beyond the power of the Banks, and that the question was now a political one.

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 10, 3.45 p.m.)
No. 111 Telegraphic [C 5048/172/62]

BERLIN, July 10, 1931, 2.10 p.m.

Prominence has been given to leading articles in the 'Times', 'Manchester Guardian' and 'Daily Herald', suggesting certain voluntary contributions by Germany in return for financial holiday.

Semi-official 'Diplomatic Correspondence' publishes a reply, of which the gist is as follows:—

Certain French desires, which were first audible during negotiations on Mr. Hoover's plan in Paris, have now been reviewed and have found their way into British press. So far as Germany is concerned there will be no new naval construction this year, as Chancellor himself recently promised. On the other hand, to cease work on new cruiser, which is on the stocks, would seriously disturb trade and labour market. In any case, ship cannot be ready for year according to existing plan, and therefore cannot menace French fleet for a considerable time. A discussion of customs union would be quite out of place now that Hague Court is investigating it. In view of purely economic character of customs union, which fits in not only with Mr. Hoover's aims, but with economic aims of M. Briand, nobody in Germany can understand how its postponement or abandonment would contribute to consolidation of Europe; indeed, we are convinced that the opposite is the case.

Government newspapers as well as press of Right find attitude of British newspapers incomprehensible. 'Germania' finds their suggestions quite incapable of fulfilment.

No. 179

Lord Tyrrell (Paris) to Mr. A. Henderson (Received July 11, 8.30 a.m.)
No. 160 Telegraphic: by bag [C 5047/172/62]

PARIS, July 10, 1931

My telegram No. 157.¹

I venture to submit following considerations prior to Leith-Ross-Bizot interview:—

(1) It is useless to ask French Government to abandon insistence on payment of unconditional annuity. They will not abandon it because they hold that no German Government will ever be in position to reimpose taxation to provide reparation payments which are once interrupted. They cannot abandon it because public opinion will not permit them to do so and because they are bound by votes in Chamber of Deputies and Senate on June 27 and 30. To free themselves from those votes they would be obliged to recall both Chambers. It is impossible to overcome these obstacles.

¹ No. 174.

(2) I understand that, as no payment in foreign currencies is necessitated, you do not, so far as its reaction on German interests is concerned, object to payment of unconditional annuity to Bank of International Settlements for immediate investment in German railway bonds. If I am wrong, Sir F. Leith-Ross will no doubt explain your objection to M. Bizot. At present French regard this payment as a book-keeping transaction only which can have no effect on German economy.

(3) I understand your objection to arrangement proposed in Franco-American agreement for payment of unconditional annuity to be due to its possible reaction on security of British reparation receipts in ten years commencing on July 1, 1933. It seems desirable to explain this objection in detail to M. Bizot, as there is a tendency here to make light of it and to claim that reaction on our security is not as important as is suggested in paragraph 4 of your telegram No. 176.¹

(4) French hold strongly to their interpretation of section 199 of Young plan respecting payments to Guarantee Fund, and claim that their interpretation was not contested by American negotiators in Paris nor by American representatives on Bank of International Settlements, and that Germans do not object to it. French maintain (see particularly enclosure to my despatch No. 752² of to-night) that, 'under the Young plan, France, having received out of unconditional annuities a special payment of 500 million Reichsmarks, undertook to deposit, in the event of a moratorium, in a trust fund *on the demand of the Bank of International Settlements* foreign currency to the value of 500 million Reichsmarks. This deposit was to enable the Bank of International Settlements to make to the other creditor Powers during the normal moratorium each month, and according to their shares of the unconditional annuity, transfers in currency against the conditional marks held up on their account in Germany. The French Government have proposed no modification of this undertaking which was definitely contracted. Their demand is exclusively limited to the payment by monthly instalments of the sums which the other Powers have themselves only to receive month by month. It is only a question of fixing a method of execution of one of the provisions of the Young plan, a method of execution left by the text of the plan to the decision of the Bank of International Settlements and which can in no way injure the rights of the other interested creditor Powers.'

(5) Sir F. Leith-Ross will no doubt be able to show M. Bizot the incorrect nature of the French thesis mentioned in (4) above, in order that French Government may understand that some concession on their part is required to compensate us not only for acceptance of their thesis (if we do decide to accept it), but also for diminution of security for our reparation receipts mentioned in (3) above. At present, French tendency is to claim that sacrifice on (4) is nil, and in respect of (3) infinitesimal. It is most desirable to show clearly that this view is erroneous.

(6) I should be glad if a copy of this telegram could be communicated to Sir F. Leith-Ross *before* he sees M. Bizot.

¹ No. 135.

² Not printed.

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 11)
No. 483 [C 5057/9/18]

BERLIN, July 8, 1931

Sir,

With reference to my despatch No. 476¹ of the 3rd July and to my telegram No. 108² of the 7th July, I have the honour to report that the continuance of the withdrawal of foreign credits from Germany has caused the leaders of finance and industry in this country to unite in taking a step intended to restore confidence, by arranging for a joint guarantee to be given by German industry to the Gold Discount Bank, on the strength of which the latter will be enabled to secure foreign credits to replace those which have been withdrawn.

2. This step was announced by the publication in the press this morning of a letter addressed to the president of the Reichsbank by a number of prominent bankers and industrials. The text of this letter is as follows:—

‘To the President of the Reichsbank:

‘The message of President Hoover made clear to the world the grave seriousness of the German situation. This situation has become even more acute in the period between the announcement of the Hoover plan and its acceptance. We hope that the agreement of all participating States which has now taken place will form the basis for reconstruction, difficult though that will be.

‘Our object must now be to restore confidence in Germany at home and abroad, to avoid further withdrawals of credit and put a stop to the loss of foreign exchange.

‘We have decided to make our co-operation available by means of the united action of all German economic forces in the following manner:—

‘German business, under the leadership of the Gold Discount Bank, will form a guarantee syndicate from industry, banks, shipping and trade, which will give a guarantee for a sum of 500 million reichsmarks so as to strengthen the capacity for action of the Gold Discount Bank by this amount. This guarantee will be distributed amongst the 1,000 greatest German undertakings according to a definite scheme; a method of repartition already in existence is thought of in this connexion.

‘We are aware what a liability this sum means for us, but are willing to make this contribution in order so to strengthen the Gold Discount Bank, which has already proved its power of helping Germany in a difficult moment, that it may be able to give valuable services as an instrument of credit, over and above what it has hitherto been able to do, particularly in the present difficult period of transition.

¹ Not printed. This despatch contained a memorandum by Mr. Rowe-Dutton on the position of the Reichsbank as disclosed in its return for June 30.

² Not printed. This telegram mentioned the proposal for a joint guarantee referred to in paragraph 1 of this despatch.

'This guarantee on our part can, however, only become effective if the Reichsbank succeeds in securing for us, in co-operation with foreign central banks, the necessary assistance for the German economic system and for German credit with the help of foreign banks. We trust that the steps necessary to realise this project may immediately be put in hand.'

3. I have reason to believe that the above scheme was conceived and worked out extremely quickly. A meeting of certain prominent bankers was held on Sunday, the 5th July, the president of the Reichsbank being present. It was generally felt that the continuance of the withdrawals of foreign credit from Germany had created so serious a position that immediate action was necessary to avert a collapse. The scheme described above was then adumbrated, and immediate steps taken to secure the assent of the industrialists who would be called upon to give the guarantee.

4. A meeting of the general council of the Reichsbank had been summoned for 8.30 on the same evening, lest it should have been considered necessary to seek the assent of the general council, under section 29 of the Reichsbank Law, to a departure from the legal minimum limit of cover for the note issue. It was felt, however, that this was a step which ought to be avoided at all costs, and, pending the working out of the Gold Discount Bank scheme and the further negotiations between the French and American authorities over the Hoover plan, no step with regard to the cover for note issue was taken. I understand that it had not been intended to publish the present scheme quite so precipitately, but rumours were current in Berlin that some such scheme was contemplated and it was therefore felt necessary to agree to immediate publication.

5. Further details of the proposed machinery to be adopted will no doubt be available very shortly, and it should then be possible to form some opinion of the actual merits and prospect of success of the plan.

I have, &c.

B. C. NEWTON

No. 181

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 11)

No. 112 Telegraphic [C 5073/9/18]

BERLIN, July 11, 1931

Secretary of State has informed me that unless foreign assistance is forthcoming Reichsbank will have exhausted last reserves by next Monday¹ noon; various small runs on the banks which began last Monday had been staved off, but were now beginning again. He mentioned in particular the Danat² bank, and said that there was also a tendency to runs on savings banks.

From reports so far received he understood Bank of England was already too much committed to Austria to give additional assistance to Germany.

¹ July 13.

² i.e. the *Darmstädter und Nationalbank*. See above, No. 130, note 2.

Although French banks were willing to help, French Minister of Finance had intimated to the president of the Reichsbank that the French Government assistance could not be . . .¹ until there had been political discussions between the two Governments. Dr. Luther was, however, bringing latest information with him by air, and was due in Berlin late this afternoon.

Gravity of the situation had been explained last night to United States Ambassador in the hopes that help might be forthcoming from America.

If there were any reassuring news it was greatly to be hoped it could appear in Sunday press as no important paper appears here on July 11-July 12.

¹ The text here is uncertain.

No. 182

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 12)

No. 113 Telegraphic [C 5074/9/18]

BERLIN, July 11, 1931

My immediately preceding telegram.¹

Losses of foreign exchange July 10 were 50 million reichsmarks, and Secretary of State informs me that loss on July 11 was over 90 million marks.²

This evening's press speaks of central control of all sales of foreign exchange, but no official statement is yet available.

(Repeated to Paris.)

¹ No. 181.

² Mr. Newton had reported that the loss of foreign exchange was between 30 and 40 million reichsmarks on each of the days July 8 and 9.

No. 183

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 13)

No. 114 Telegraphic [C 5086/172/62]

BERLIN, July 12, 1931

My telegram No. 112.¹

On my asking Herr von Bülow if it had been stated what political subjects to which French Minister of Finance referred were, he replied that the only other official intimation regarding such discussions was a remark by Political Director to German Ambassador in Paris to the effect that a long list was being prepared for visit of Dr. Brüning and Dr. Curtius. None of the items was, however, then mentioned, and it was in any case impossible for visit to take place before the end of July or beginning of August. French press, on the other hand, was full of political demands, notably in regard to naval construction and customs union. If, however, German Government made any such concession convocation of Reichstag would be demanded and their position become impossible.

¹ No. 181.

In the course of further conversation Herr von Bülow said that naval holiday could only be discussed at Disarmament Conference or at some preliminary general conference and that customs union could only be postponed if it were possible—which, in his opinion, it evidently was not—to put forward practicable alternative. His attitude was quite uncompromising, but I draw attention to the foregoing in case it should in fact offer any hope of progress towards . . .¹ of compromise.

In issue of July 12 'Berliner Tageblatt' gives prominence to telegram from their special correspondent in Washington, Paul Scheffer, reporting that public opinion of the United States considers Germany's national strength and importance do not depend in the slightest on customs union or construction of cruisers, and indicating that American opinion, while blaming French politics, agrees with advice given to Germany by England. In leading article, editor, Theodor Wolff, says that if situation becomes worse Germany and not France will be isolated. While referring in guarded terms to cruiser question, he asks whether a postponement of customs union, which, in view of economic conditions in Germany and Austria, has in any case already postponed itself, can be regarded as more intolerable than a German financial catastrophe. He suggests that a diplomatic formula should be found.

¹ The text here is uncertain.

No. 184

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 13)

No. 490 [C 5090/9/18]

BERLIN, July 9, 1931

Sir,

With reference to Sir Horace Rumbold's despatch No. 399¹ of the 2nd June, I have the honour to transmit to you a further memorandum prepared by the financial adviser and the commercial counsellor respectively regarding the financial and economic position of Germany.

2. Without repeating the facts and views expressed in the previous memorandum enclosed in the despatch under reference, the present enclosure is an attempt to complete the picture up to the latest date possible before the approaching visit of the Prime Minister and yourself to Berlin.

3. As Mr. Rowe-Dutton points out in the financial section of the memorandum, the present position is that, from the 31st May up to the 7th July, the Reichsbank had lost nearly 1,600 million reichsmarks (£80 million) of its stock of gold and foreign exchange, while deposit banks had lost at least a further 500 million reichsmarks (£25 million) of their foreign assets. As a result, the deposit banks have had to reduce their advances to customers, who now find themselves deprived of the credit necessary for carrying on production. A flow of credit back is, therefore, urgently required in order to

¹ This despatch (not printed) enclosed a memorandum from the Commercial Counsellor on German finance and other economic subjects.

maintain business activity and enable any possible increase which might result from the impetus given by the Hoover plan to be financed.

4. The fear has been expressed to me that the delay and difficulty experienced in the acceptance of the Hoover plan, which entailed no greater commitment than a year's holiday, will be regarded by bankers and investors as boding ill for the success of the general subsequent settlement which must be reached within the year if catastrophe is to be finally avoided. My informant feared that foreign banks might, therefore, adopt a waiting attitude, which would hold up the return flow of the credit urgently needed, and thus prevent the revival which would otherwise have resulted from President Hoover's initiative. It may perhaps be hoped that the establishment of the 500 million reichsmarks guarantee fund, which was announced subsequent to our conversation, will mitigate such a danger.

5. In the economic section of the memorandum it will be noted that Mr. Thelwall stresses the need for the re-establishment of confidence, but considers that this will certainly be achieved by the Hoover plan. Mr. Thelwall is, however, not optimistic with regard to the results obtainable by a year's moratorium, in view of the fact that the actual sums thus released are almost entirely needed to meet present deficits and past accumulation of debt.

6. Although it is certain that in the event of a general return of confidence Germany would be certain to secure a handsome proportion of any resultant increase in business, Mr. Thelwall considers that one year will scarcely prove sufficient to take Germany far along the road to recovery.

I have, &c.

B. C. NEWTON

ENCLOSURE IN No. 184

Memorandum regarding the Financial and Economic Position of Germany

I. Public Finance

The difficulties which will be met in balancing the German budgets for 1931 and 1932 are not due only to the world crisis. From 1927 to 1929 commitments for new expenditure were entered into without corresponding permanent revenue being in sight. By 1930 it would, in any case, have been necessary to provide additional revenue, even if the yield of existing revenue had been maintained. Meanwhile, practically all reserves had been exhausted, and much short-term debt incurred. At this point, the progress of the world depression began to show itself in a steadily decreasing yield of revenue and a growing increase of the burden of unemployment relief.

The year 1930 was accordingly a series of scrambles to provide cover for the continually growing budget deficit. Indirect taxation was sharply increased, the duty being raised on beer, tobacco and coffee, while new duties were imposed on petrol, mineral waters and beverages sold for immediate consumption. The turnover tax was also increased. Direct taxation was less affected, but small increases were made in the income tax, and a poll tax, graduated according to income, was introduced. During the year the rate of contribu-

tion to the Unemployment Insurance Fund was increased from 3 to 6½ per cent. of wages.

On each occasion, however, it was assumed that the trade depression would grow no worse; as it progressed, estimates were found to be over-optimistic, and new measures became necessary. Not until the end of the year was any real effort made to reduce expenditure, the principal item then being a reduction of 6 per cent. in all official salaries.

These measures were, however, too late to save the budget for 1930, which after repaying 465 million reichsmarks of debt, closed with a deficit now ascertained to be 1,030 million reichsmarks (£51,500,000). The outstanding deficit on the extraordinary budget was reduced during the year from 772 million reichsmarks to 261 million reichsmarks (£13,500,000).

Meanwhile, the budget for 1931 had been prepared during the closing months of 1930. Provision was made for a falling off in revenue (as compared with the estimates for 1930) of 1,143 million reichsmarks (£57,150,000), and expenditure reduced accordingly, sharp cuts being made all along the line, except in the military estimates. But, by April 1931, it was already clear that the revenue estimates for the year just beginning were too high. Deficits were admitted, not only in the budget of the Reich, but also in those of the Federal States, the municipalities, and the Unemployment Insurance Institute. These were attacked by the Emergency Decree of the 5th June, of which full summaries have already been made.

For the present purpose it is sufficient to record that the Emergency Decree finds additional resources as follows:—

	Million reichsmarks
For the Reich	574 (£28,700,000)
For the States and communes	302 (£15,100,000)
For the Unemployment Insurance Institute	400 (£20,000,000)

This involves a series of sacrifices. An additional income tax rising to 1s. in the £, and in certain cases even more, is levied. All official salaries (already reduced by 6 per cent. in February) are cut by a further 4 per cent. to 8 per cent. The War Pensions Budget is cut by 7 per cent., and other economies of £6 million are made in the budget. The sugar tax is doubled and the petrol duty increased by 70 per cent. Unemployment insurance benefits are reduced by 6 per cent. to 14 per cent., and certain classes of workers (including married women and juveniles) are penalised.

The decree was accompanied by a German Government manifesto emphasising the sacrifices called for, and proclaiming that it was impossible to do more, *i.e.*, that if the budget did not balance with the help of the sacrifices made, a reparation moratorium would be inevitable.

The pessimistic tone of the manifesto undoubtedly contributed to the loss of confidence which quickly developed into a financial crisis. It is certainly possible to argue that the limits of both direct and indirect taxation have been reached, and that no further major economies in expenditure are possible. The question has, however, become more political than financial. The in-

evitable result of the mass propaganda, which was spread practically unchecked, of Germany's poverty and the enormity of the reparation burden, has been to make the bulk of the people believe that they are unable to stand further sacrifices. It has, therefore, become impossible for the Government of Dr. Brüning, based as it is on a minority, to impose heavier burdens, lest it be overthrown to make way for a more extremist Government, which would seek relief by action in the reparation sphere sooner rather than later.

Fortunately the problem has been entirely altered by the Hoover proposals, and Dr. Brüning lost no time in stating very firmly that the relief afforded to Germany thereby would not be dissipated in concessions to those affected by the decree. The policy of the German Government is stated to be that the financial effect of the decree is to be fully maintained, although they will consider modifications reducing particular hardships or injustices. Thus the saving of some £80 million accruing to Germany through the Hoover plan will constitute a reserve to meet any further falling off in budget revenue, and, if it should not be required for this purpose, it can go to reducing short-term debt of the Reich.

II. *The Money Market*

The banking system had received a severe shock from the financial crisis which followed upon the Nazi successes in the general election of September 1930,¹ after which nearly 1 milliard reichsmarks (£50 million) left the country, either because of foreign withdrawals of short credits or through flight of capital. The winter months were spent in reconstituting the position, and a certain amount of progress had been made in this direction by the end of April. A beginning had been made in the liquidation of advances to industry, and an increase of confidence had led to some return of short-term foreign balances.

The political difficulties resulting from the announcement of the proposed customs union with Austria caused a slight renewal of uneasiness, and this was greatly intensified by the news of the collapse of the Austrian Credit Anstalt. For a little time the repercussions of this affair on Berlin seemed slight. Foreign lenders, however, began to ask themselves whether German banks might not prove to be in difficulties similar to those which had brought down the Credit Anstalt, and a considerable withdrawal of balances began. Things were thus thoroughly unsettled when the German Government issued the memorandum explaining the Emergency Decree of the 5th June. The extraordinarily pessimistic tone of this memorandum, and its direct reference to the impossibility of continuing to pay reparation, completed the loss of confidence and the withdrawals quickly developed into a run.

During the first fortnight of June the Reichsbank had lost approximately 1,000 million reichsmarks (£50 million) of gold and foreign exchange, and on the 13th June the discount rate was raised from 5 per cent. to 7 per cent.,

¹ On July 7, 1931, the German Finance Minister stated to the press that the losses in foreign currency suffered by Germany since the general election had amounted to three to four milliard marks.

the jump of 2 per cent. showing the anxiety with which the situation was regarded. This step proved, however, unavailing and a further 350 million reichsmarks (£17,500,000) of gold was lost in the following week. Accordingly on the 20th June the Reichsbank took steps directly foreshadowing the restriction of credit, and the market viewed the future with the utmost apprehension. The next day, however, the first news of the Hoover plan arrived, and the situation was momentarily reversed.

The relief was not, however, of long duration, since the difficulties in the way of acceptance of the Hoover plan by France and the long drawn-out negotiations which these caused allowed a further series of withdrawals to commence. The Reichsbank return for the 23rd June showed that the percentage cover (in gold or foreign exchange) for the note circulation had fallen to 40·8 per cent., the legal minimum being 40 per cent. It was accordingly impossible for the Reichsbank to provide cover for the expansion in the note circulation which was bound to occur over the end of the month. This situation was met by the opening of a rediscount credit of 100 million dollars (£20 million or 420 million reichsmarks) by the central banks of England, France and America and the Bank for International Settlements.

This enabled the immediate difficulty of the end of June to be surmounted. The Reichsbank had to draw heavily upon the rediscount credit, the return for the 30th June showing that at least 320 million reichsmarks had been used. It was hoped that the pressure would then decrease, but foreign withdrawals persisted, and some measure at least of internal flight from the mark set in, a feature which had not been particularly apparent during the early part of the crisis. The Reichsbank made it clear that a more severe rationing of credit would be necessary, and the question was raised whether the assent of the General Council of the Reichsbank should be sought to a reduction of the 40 per cent. cover for the note issue, provided for in section 29 of the Reichsbank Law in case of emergency.

A meeting of the General Council was, in fact, held on the 5th July, but it was then held that a reduction of the percentage cover was a step to be avoided if possible. It was, however, decided to make use of an acceptance credit of 50 million dollars which had been opened in 1927 for the Gold Discount Bank by a syndicate of private American banks.

On the 7th July the news of the French agreement to the Hoover plan became known, and hopes for an early improvement in the situation were expressed. Nevertheless, foreign withdrawals had gone so far that the position was deemed highly critical, and an immediate step necessary to restore confidence. A scheme, very hurriedly arranged, was announced on the 8th July, whereby all the leading concerns in Germany, banking, industrial, shipping and trade, should put up a guarantee of 500 million reichsmarks to the Gold Discount Bank, on the basis of which the latter could obtain foreign credits, to be relented to German borrowers. At the moment of writing, full details of the scheme are not yet available.

The present position is then that, from the 31st May up to the 7th July, the Reichsbank has lost nearly 1,600 million reichsmarks (£80 million) of

its stock of gold and foreign exchange, while deposit banks have lost at least a further 500 million reichsmarks (£25 million) of their foreign assets. These funds represent the bases upon which the credit system of Germany has been built up, and the deposit banks can only meet withdrawals of this enormous volume by reducing their own advances to their customers, *i.e.*, to German industry. German businesses are thus deprived of the credit necessary for carrying on production, and a reflux of credit is urgently required, in order to enable any possible increase of business activity, which might result from the impetus given by the Hoover plan, to be financed. Further reference to this aspect of the situation is made in the following paragraphs.

III. *The Economic Situation*

Up to to-day, the 7th July, the day on which the French Government agreed in principle to Mr. Hoover's proposal for a year's moratorium in respect of political debts, there has been no change for some months in the economic depression in Germany. Possibly some slight satisfaction may be derived from this state of quiescence, which is accompanied by small seasonal fluctuations; experience shows that it is often the prelude to an upward movement.

An attempt to forecast what the effect on Germany of the universal acceptance of Mr. Hoover's plan is likely to be is surrounded by many conditional premises.

To begin with, there is, however, one necessity, and that is the re-establishment of confidence. That this will be achieved seems certain, and with it a cessation of the withdrawal of foreign currency from the Reichsbank which will enable the latter in turn gradually to relax its credit restrictions and make a return to a normal open money market possible. It may also be regarded as highly probable that at least that portion of German foreign earnings which is represented by the payments for current sales abroad will be brought back into Germany, even without the pressure of credit restriction. On the other hand, a greater degree of stability in the economic and political situation will be required before those German foreign investments which have been made out of the desire to avoid taxation and out of nervousness return.

This easing of the money market would, however, only be an initial step, and would only remove the first and, for the moment, the most serious, obstacle to improvement.

Whether the German economy should, as the next step, seek stimulation by foreign borrowing is a delicate and difficult question. It could be answered unhesitatingly in the affirmative if the loans could be guided into the right channels, but, as the German attempts have shown, this is only possible to a limited extent. Moderate and judicious foreign borrowing might certainly be the means of assisting German industry and the German banks to disentangle themselves from the deadlock into which they have drifted. Long-term borrowing would be beneficial if used for the consolidation and conversion of existing debts, but short-term borrowing should be strictly limited to current requirements. It may be assumed that the Germans will not so soon again

commit the errors of the last few years of over-borrowing merely for the purpose of overspending or of locking up short-term money in long-term investments.

The essential point of the moratorium and of any financial movements which may accompany it is: Will they lead to a revival of German economic life and place it on so firm a basis that it can not only earn sufficient to pay its way at home, but also to resume the payment of such foreign indebtedness as may be imposed upon Germany in a year's time? In answering this question it is impossible to be optimistic. The actual amount released by the moratorium is almost entirely needed to meet present deficits and past accumulations of debt, a difficult situation as between the banks and industry must be cleared up, internal purchasing power is exceedingly low owing to heavy unemployment and a radical cutting down of wages and salaries, the burden of taxation, measured by the wealth of the country, is extremely severe, and foreign markets are not receptive. Under these circumstances it is difficult to see from where the impetus for an improvement is to come. Freed from the compulsion, exercised by reparation payments, to export at all costs, German industry will probably pay greater attention to the more profitable home market, and thus perhaps gradually build up a margin of savings which could be used for further enterprise. Possibly, also, trade may revive owing to a general growth of confidence and to such measures as that indicated by the United States of America of giving financial assistance to South America; Germany would be certain to secure a good proportion of any such additional business.

There are, however, besides the purely economic considerations, others which will probably hamper an expansion of commercial activity; the disarmament question is bound to cause a good deal of uneasiness, there is the expectation of discussions on the revision of international indebtedness, and, if this is realised, there will be difficulties from time to time. For these and the other reasons given above, one year will hardly prove sufficient to take Germany far along the way to recovery.

Unemployment

The following figures illustrate the present position:—

The number of unemployed in Germany on the 15th June was 4 millions. This represents a reduction of 53,000 since the end of May, due to the usual seasonal causes. The number in June 1930 was 2,636,000. The following figures show the development of unemployment during the past twelve months:—

<i>Number of Unemployed</i>	
1930	1931
June 2,636,000	January 4,886,000
July 2,765,000	February 4,971,000
August 2,883,000	March 4,743,000
September 3,030,000	April 4,358,000
October 3,253,000	May 4,053,000
November 3,762,000	June 4,000,000
December 4,357,000	

The following figures, taken from the statistics compiled by the German trade unions, are also of interest; the improvement shown in May 1931, as compared with January, in certain cases would appear to be due to seasonal influences:—

Unemployed in Percentages of Trade Union Members

	May 1930	January 1931	May 1931
Mining industry	6·1	12·5	14·9
Glass industry	22·3	39·8	38·8
Porcelain industry	14·3	31·0	28·2
Chemical industry	13·7	22·2	22·8
Metal industry	17·9	29·6	30·4
Textile industry	15·1	22·6	21·8
Of which—			
Silk and artificial silk	17·0	27·3	26·2
Wool	17·8	24·6	22·6
Cotton	11·4	20·2	19·2
Linen	15·1	26·7	24·7
Jute	15·6	21·8	31·7
Hosiery and knitted goods	15·8	19·8	19·8
Ready-made clothing industry	13·7	39·4	25·8
Boot and shoemakers	22·5	32·1	29·1
Paper-making industry	10·7	18·4	19·7
Leather-workers	22·5	22·5	24·8
Wood-workers	29·6	49·7	47·8
Food-stuffs industry	10·2	15·7	15·1
Building industry	41·1	72·9	56·5

Wages

Since the middle of 1930 there has been a general reduction of wages and salaries, which was commenced, as far as tariff wages were concerned, by the metal industry and the coal-mining industry, who lowered the wages of their workers by an average of 7 per cent. The German Minister of Labour estimates that, after the reduction of official salaries imposed by the latest Emergency Decree, about 9,000 million marks (£450 million) less will be paid during 1931 in public and private wages and salaries than in 1929. About half of the amount is due to increased unemployment and short time.

Bankruptcies

Bankruptcies and compositions with creditors have risen from a monthly average of 1,579 in 1930 to 1,716 for the first six months of this year.

Exports

During the first five months of 1931 Germany's exports of goods amounted to 4,021,300,000 marks (£201,065,000) and her imports to 3,198,800,000 marks (£159,940,000), leaving an excess over imports of 822,500,000 marks (£41,125,000). For the whole of 1930 exports exceeded imports by 1,642,444,000 marks (£82,122,200). The average monthly value of

Germany's imports during 1930 was 866,100,000 marks (£43,305,000), and had dropped to 640 million marks (£32 million) for the first five months of 1931. There was also a fall in exports, the monthly average for 1930 being 1,002,300,000 marks (£50,115,000) and for the first five months of 1931 804,260,000 marks (£40,213,000). These reductions, particularly that of imports, are, of course, partly due to lower prices, but the statistics show that the quantities were also less.

Compared with May 1930, the German Railway Company transported 15 per cent. less goods in May 1931. The total receipts of the company during the first five months of 1931 were lower than those for the same period of 1930 by 274 million marks; compared with 1929, the decline is 522 million marks.

Transport

On the 1st June last 651,313 gross register tons of shipping belonging to the German Shipowners' Association were laid up, to which should be added about another 200,000 tons belonging to other German owners. This represents about 20 per cent. of the total German mercantile marine.

Coal

The output of coal in Germany fell from 60,538,434 tons in the period January to May 1930 to 50,771,773 tons during the first five months of 1931. The corresponding figures for lignite were 60,024,056 tons and 50,702,069 tons. The stocks of coal in the Ruhr area on the 20th June, 1931, amounted to 10,450,000 tons, as against 7,300,000 tons in June 1930.

Iron

The output of pig-iron dropped from 4,825,335 tons during the first five months of 1930 to 2,768,429 tons during the corresponding period of 1931. The decline in the production of ingot steel was from 5,722,903 tons to 3,836,535 tons. This industry has been helped somewhat by recent Russian orders for 300,000 tons of iron and steel manufactures. Orders for 100 million marks' worth of material are expected from the railway company shortly.

Shipbuilding

The latest figures available in respect to shipbuilding in Germany are those for the 31st March, which show that the tonnage then under construction was 136,000 tons, as against 231,000 at the same date in 1930. The leading German shipbuilding yards continue to dismiss workers.

Machine-building Industry

The machine-building industry, which has in the course of many years worked out an employment index of its own (100), was only occupied to the extent of 44.7 of this index in May last, as against 60.0 at the same time last year.

Electro-technical Industry

The electro-technical industry seems to have suffered less than most, particularly in the heavy branch, but no definite figures are available.

Textile Industry

The cotton industry passed through its worst years since 1924, spinners and weavers only working at about 69 per cent. of capacity on the basis of a fifty-four-hour week. The woollen industry was in a slightly better state. Both industries experienced a certain seasonal improvement in the spring; during the quarter April to June 1931 the cotton industry was occupied to the extent of 65 per cent. of its capacity.

Agriculture

The current harvest, which is just beginning, promises to be a good one, both as to quantity and quality. German agriculture received a great deal of assistance from the Government in the form of special customs duties and indirect and direct subsidies. These measures are designed not only to maintain prices, but also to assist in the consolidation and amortisation of agricultural indebtedness. The Government's policy, which aimed at assisting wheat, of which there is a shortage in Germany, and restricting rye, of which there is a surplus, has had a striking result in that the area under wheat has increased by 21·2 per cent. in 1931 compared with 1930, and that of winter barley by 16·7 per cent., while that under rye has decreased by 7·5 per cent.

No. 185

Mr. A. Henderson to Mr. Newton (Berlin)

No. 759 [C 5115/172/62]

FOREIGN OFFICE, July 13, 1931

Sir,

The German Ambassador called upon me at the Foreign Office this morning to communicate to me the attached *aide-mémoire*¹ setting out the financial position in Germany and the impossibility in which the German Government found themselves as regards making any concession in the matter of the battle-cruiser or the Austro-German Customs Union.

I told the Ambassador that I took note of the views of the German Government, but I did not conceal from him my regret that the German Govern-

¹ A summary of this *aide-mémoire* was telegraphed to Mr. Newton on July 13. On the evening of July 12 the French Ambassador wrote to Mr. Henderson with regard to an appeal from the German Government to the French Government for immediate financial help. The Ambassador inquired the opinion of His Majesty's Government with regard to this appeal. On the morning of July 13 Mr. Henderson informed the French Ambassador that 'from the financial point of view, London had done its part in financing both Germany and Austria, and there was no further financial help which could be made from here'.

ment had not seen their way to make some gesture in the direction which I had suggested several weeks ago in order to assist in creating a better atmosphere throughout Europe.

I am, &c.

ARTHUR HENDERSON

ENCLOSURE IN No. 185

Aide-mémoire

The effect of President Hoover's plan on Germany's present critical situation has been nearly completely paralysed by the length of time of the Paris negotiations. The existing uncertainty is the cause of continued withdrawals of credits and foreign exchange. The difficulties thus arising are used by France for enforcing upon Germany political concessions which President Hoover had excluded from his action. This French attitude has been strengthened by the support it received by England. The concessions in question (battle-cruiser 'B,' customs union and others) are regarded by the German Government as absolutely unbearable on account of their inner political consequences. The situation resulting thereof is extremely serious, as the collapse of banking institutions is imminent, and, above all, a run on bank and saving institutions has already started which those institutions will not be able to face. It is feared that on Monday deposit banks and saving institutions will be called upon to meet payments on a very large scale.

The President of the Reichsbank, Dr. Luther, having not received on his visit to London and Paris an assurance of immediate support of credits, the German Government requested the American Ambassador on Friday evening to report to Washington the dangerous situation in Berlin and to ask for an intervention of his Government or the Federal Reserve Board. On this occasion it was explained to him that the fulfilment of the political concessions demanded by France would result in the fall of the German Government. On the other hand, he was informed that a discussion of political demands would be quite admissible if it was held in a quieter atmosphere and in conversations of a larger scope, provided that the method of asking for unilateral political concessions by Germany was discontinued.

It has to be pointed out that Germany, having lost in the course of the last twelve months approximately $3\frac{1}{2}$ milliard reichsmarks in gold and foreign exchange, is unable to conquer the crisis arising out of lack of confidence without foreign help, although her economic life is sound, her trade balance shows a great surplus in her favour and her budget is balanced. If immediate assistance by granting of credits is not forthcoming, breakdowns will be unavoidable which will have catastrophic results for the whole of Central Europe, with serious repercussions for the rest of the world, and frustrate the success of President Hoover's plan.

LONDON, *July 13, 1931*

*Mr. Newton (Berlin) to Mr. A. Henderson (Received July 14)**No. 495 [C 5160/845/18]*

BERLIN, July 10, 1931

Sir,

I have the honour to transmit to you herewith an interesting memorandum which has been prepared in collaboration between the military attaché and the financial adviser to this Embassy on the subject of the apparent extravagance of German military expenditure.

2. As reported in my telegram No. 95¹ of the 2nd July, the German Minister for Foreign Affairs informed me confidentially in the course of a conversation on the 2nd July that the German Government had decided to make cuts in the expenditure of the Reichswehr amounting to some 50 million reichsmarks. It may be, however, that they will wish to keep the announcement of this reduction in reserve for the Disarmament Conference.

I have, &c.

B. C. NEWTON

ENCLOSURE IN NO. 186

Memorandum on German Military Expenditure

A direct attack on the level of German military expenditure involves certain difficulties which should not be overlooked. Although there is no doubt that the military budget is unduly swollen—

1. It is very difficult to point to specific items on which we can prove that too much is being spent.
2. Even if we can give a few such items, it may be dangerous to do so lest the Germans should effect reductions in these items and then turn round and say they assume that their critics are now satisfied.
3. The Germans may also argue that they must keep reductions in expenditure up their sleeve for the Disarmament Conference. The answer to be made to such a point involves a delicate question of tactics.

If, however, it is desired to support a general reference to the dissatisfaction with which British opinion regards the level of German military expenditure, the following notes may be useful in giving some support to such observations:—

*I. Total Military Expenditure**(Million Reichsmarks)*

	<i>Estimates</i>		<i>Actual</i>
	<i>1931</i>	<i>1930</i>	<i>1929</i>
Total gross expenditure of fighting services			
(including pay and pensions)	755	768	770
Of which, pay and pensions	331	347	337
Expenditure on material	424	421	433
Less receipts	25	15	20
Net expenditure on material	399	406	413

¹ No. 120.

In spite of the drastic need for reductions in expenditure, the total gross military expenditure has scarcely dropped since 1929. No economies, other than in pay and pensions, were effected as between 1930 and 1931. Although the Emergency Decree of the 5th June, 1931, promises an unspecified cut in budget expenditure of 120 million Reichsmarks over and above cuts in pay, no public statement has as yet been made that the Reichswehr will participate therein.

But from 1929 to 1931 the total expenditure of the Reich itself (excluding expenditure on liquidation of the war, debt services, and transfers to the Federal States) has fallen from 2,642 million to 2,097 million Reichsmarks, *i.e.*, by 545 million, or over 20 per cent. Excluding salaries, the expenditure of the Reich has fallen from 2,244 million to 1,724 million Reichsmarks, *i.e.*, by 520 million, or 23 per cent. *Yet in this period the Reichswehr shows practically no reduction.*

II. The Fall in Prices

Very many individual items in the Reichswehr budget must be affected by the sweeping fall in prices which has taken place since 1929. For example, the cost of fodder for horses, &c., is given as follows:—

	Thousand Reichsmarks
Actual expenditure, 1929	17,286
Estimates, 1930	21,723
Estimates, 1931	19,422

The fall in 1931 is explained as due to a reduction in stocks of oats by 2,250 thousand Reichsmarks, *i.e.*, the true comparative figure is 21,672 thousand Reichsmarks.

Yet the official wholesale index price for fodder ('futtermittel') has fallen from an average of 147·4 in 1928 to 125·9 in 1929 and 93·2 in 1930, *i.e.*, a fall of about 37 per cent.

It is not possible to pick out individual items and to estimate the effect thereon of the fall in prices. Nevertheless, one may take a very rough measure as follows:—

(Million Reichsmarks)

	1931	1930	1929
Item No. 2 e, Provisions	19·7	23·1	21·2
Item No. 2 f, Clothing	27·3	28·4	29·0
Item No. 2 g, Maintenance	40·1	35·2	33·2
Item No. 2 o, Munitions	77·9	79·9	73·8
Item No. 2 q, Pioneers and Fortifications	14·7	15·1	12·9
Item No. 2 r, Transport	16·3	15·6	14·5
	196·0	197·3	184·6

In view of the general fall in prices, of which so much is made in discussing Germany's reparation liability, it seems not unjust to suppose that there is

room in the above headings (which refer only to the army) for a saving of many million marks.

III. *British and German Expenditure on Specified Items*

The disproportionate amounts by the German army in the purchase of arms, ammunition and war material, compared with the expenditure of the British army for similar purposes, is shown by the following comparative figures, extracted from this year's army estimates:—

	<i>British</i>	<i>Germany</i>
	£	£
Guns and gun-carriages and trench mortars	150,000	390,682
Artillery and trench-mortar ammunition	306,000	1,035,007
Small arms	193,000	652,540
Small-arms ammunition	234,000	514,200
Anti-gas equipment	57,000	138,852
	<u>940,000</u>	<u>2,731,281</u>

For the sake of simplicity, the mark has been converted at 20 to the £.

It will be noticed that the Germans, in spite of the restrictions imposed on them (*e.g.*, no heavy artillery) spend from twice to three times what the British army does on each of the above items.

In addition, when one turns to Vote E. 21 of the German army estimates, one finds that a further sum of £487,750 is demanded for non-recurrent expenditure for the same purposes.

No. 187

Memorandum from the German Ambassador to Mr. A. Henderson
(Received July 14)
[C 5187/9/18]

(Translation)

GERMAN EMBASSY, *July 13, 1931*

Sir,

I have the honour on behalf of my Government to make the following statement:—

In consequence of the non-materialisation of an extended rediscount credit to the Reichsbank the situation in Germany has developed catastrophically. The Reichsbank has no longer sufficient margin to supply all banks with an adequate amount of cash resources. Contrary to the completely unjustified reproaches from foreign quarters, it has for a considerable time, in order to maintain the currency, taken measures of ever-increasing stringency to restrict credit. Attempts made to obtain a rediscount credit have hitherto been in vain. It is impossible for the banking system of any country to liquidate in cash within a few weeks, as the German banks have been expected to do in the last few weeks by persons abroad, its capital invested during the regular course of banking business on more or less long-date terms. In so doing the

Darmstädter and Nationalbank (Danatbank) has encountered a crisis in liquidating its assets and was obliged to close its doors to-day. As the Danatbank has made very considerable payments to its foreign creditors within the last few weeks, the number of the latter is no longer very large in proportion to their total deposits. Within Germany the bank possesses an extensive net-work of branches spread over the whole country; the number of its home customers amounts to approximately 300,000, who are distributed over all classes of the population and business circles from small savers to the largest industrial concerns.

In view of this state of affairs the Government could not remain inactive, since a winding-up of the bank's business on no prearranged basis would give ground for apprehension that the crisis might overtake other banks and that the entire economic system of Germany might be brought to a standstill and a collapse. An emergency ordinance has therefore been issued by the President of Germany; it empowers the Government: (1) to assume guarantees for the Danatbank; (2) to prevent attachments, distrains, temporary measures and the initiation of bankruptcy proceedings against the bank's property; and (3) to intervene in the direction of the bank's business. In virtue of this authorisation the German Government are assuming the deficiency guarantee for meeting the liabilities of the Danatbank arising out of savings deposits, current accounts, other creditors and its own acceptances, the whole only in so far as there is no appropriate counter-liability on the part of the creditor to balance accounts. The German Government reserve the right to decline to undertake the deficiency guarantee in respect of obligations which arise after a definite future date. Trustees will be appointed for the Danatbank, the management being bound to consent to such. Up to the 31st July, 1931, the bank may only make payments in respect of guaranteed liabilities in accordance with instructions from the trustees. The dates for liabilities arising from the bank's bills are correspondingly postponed, and until the same time attachments, distrains, temporary measures and bankruptcy proceedings, will be impossible. What measures may be taken in regard to the Danatbank for the time posterior to the said date, and especially as concerns the prolongation of the above-mentioned time-limits, depend on the exact position as ascertained and on the manner in which the general financial state of affairs may meanwhile develop. The German Government hope, by assuming the guarantee and preventing the process of winding up being effected in a disorganised manner, that they have localised the collapse of the Danatbank and have prevented a run on other banks.

My Government would be grateful if it could be possible to exercise a reassuring influence on interested circles in this country and the public generally.

I have, &c.

NEURATH

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 14)

No. 117 Telegraphic [C 5138/9/18]

My immediately preceding telegram.¹

BERLIN, July 13, 1931

Situation arising from closing of Darmstädter Bank is extremely confused, little intelligent comment is available, and opinion is waiting on results of Dr. Luther's negotiations at Basle. Meanwhile a considerable run on banks is manifesting itself; it has not yet attained panic dimensions. Banks are, however, limiting amounts they will pay out in many cases to 10 per cent. of customers' balances on current accounts. Foreign exchange market is closed, and foreign exchange from banks appears to be obtainable only as a favour, although Reichsbank is giving foreign exchange to individuals against mark notes. Amount lost on this account is not yet known.

Savings banks are also experiencing a run, and announce that out-payment will be made strictly in accordance with Reichsbank as to notice, &c.

No announcement has yet been made as to central control of sales of foreign exchange, and semi-official comment seems doubtful whether measure will be attempted.

Public order has been completely maintained, and aspect of streets is normal except for small groups outside offices of Darmstädter Bank reading the notice regarding closing.

Cabinet invited Schacht to take part in its deliberations yesterday, and his influence is . . . ² to be considerable.

An emergency decree authorising Government guarantee of Darmstädter Bank was issued to-day. Text follows by mail. Readiness of Government to help indicated by this action is appreciated, but fears are expressed that it has created a dangerous precedent which may involve the Reich in liabilities the extent of which cannot be foreseen. At least one other important bank is shaky.

¹ Not printed. This telegram referred to manifesto issued by the Government with the intention of reassuring public opinion in Germany in view of the announcement on July 13 that the Darmstädter Bank would not open on that day. The Berlin Stock Exchange also closed. On July 14 the German Government declared a bank holiday, closing all banks except the Reichsbank for July 14 and 15.

² The text here is uncertain.

No. 189

Sir R. Lindsay (Washington) to Mr. A. Henderson

(Received July 14, 9.30 a.m.)

No. 422 Telegraphic [C 5137/172/62]

Your telegram No. 532.¹

WASHINGTON, July 13, 1931, 7.35 p.m.

Acting Secretary of State told me to-day that further financial help to Germany by United States Government was not only not contemplated but also quite impossible.

¹ This telegram was repeated as No. 153 to Berlin. The telegram summarized the *aide-mémoire* printed in No. 185.

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 163 Telegraphic: by telephone [C 5145/172/62]

PARIS, July 14, 1931, 12.45 p.m.

I understand from the Quai d'Orsay that a note will be sent to me to-morrow (there being no typists at the Quai d'Orsay to-day) replying to the document handed to M. Bizot by Sir F. Leith-Ross. This document, according to the Quai d'Orsay (we have no official knowledge of it here yet), intimates that His Majesty's Government would raise no objection to the French proposal regarding the method of constituting the guarantee fund on condition that the French Government would agree to return to the Spa percentages for the distribution of effective German payments during the ten-year period provided for under the Franco-American Agreement for payments of annuities suspended under the Hoover holiday. The French reply is to the effect that it is impossible for French Government to accept this proposal.

No. 191

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 14, 10 p.m.)
No. 424 Telegraphic [C 5191/172/62]

WASHINGTON, July 14, 1931, 1.38 p.m.

Acting Secretary of State told me to-day that at meeting of Bank of International Settlements it was felt that matter had gone beyond the powers of central banks and that Governments must take situation in hand. The Governor of the Bank of England seems to favour immediate calling of conference of heads of Governments to deal with the situation on broadest lines, contemplating even revision of Treaty of Versailles.

View of the United States Government is that meeting of such a conference at the earliest possible moment is indeed now most desirable, but they think though the widest issues may have to be raised eventually it is important that conference itself should have only limited object, namely, that of dealing with immediate crisis. They would warmly support summons of conference, preferably this week and at London, for this purpose, and Secretary of State would represent them at it. At the same time they perfectly recognise that the conference would have to deal with political questions. If you concur in these views they would leave it to you to decide what Governments should be invited and all other details, which you only can appreciate.

(Repeated to Paris.)

Sir R. Graham (Rome) to Mr. A. Henderson (Received July 15, 9.30 a.m.)
No. 180 Telegraphic [C 5219/5081/62]

ROME, July 14, 1931, 9.30 p.m.

My telegram No. 178.¹

Mr. Stimson spent Sunday in the country, some of it in a motor launch with Signor Mussolini, and returned here last night. In the evening he received my French and German colleagues and myself. He expressed much satisfaction over his visit here and his contact with Italian statesmen. Conversation then turned to contacts at Geneva, and Mr. Stimson expressed his sympathy with League of Nations, which he had in 1919 thought United States ought to join, but he explained at some length his reasons for considering that now his country could be more useful outside the League. Rest of our interview was taken up by German Ambassador's piteous account of financial crisis in Germany. Mr. Stimson, no doubt embarrassed by simultaneous presence of French and German Ambassadors, was sympathetic but non-committal.

This morning I saw Signor Grandi, who gave me the following full account of his conversations with Mr. Stimson:—

1. First subject discussed had been Disarmament Conference and somewhat mysterious manœuvres representing first Italy and then United States as having suggested its postponement, whereas both countries favoured its early meeting.

2. Signor Grandi suggested that if conference was to be a success and not a mere academic discussion it was essential that immediate preparations should be made for it by contacts between the Powers chiefly interested. He pointed out that the Hoover plan helped towards its success, and Mr. Stimson agreed, declaring that it was inconceivable that United States should assist Europe with moratorium, &c., unless in the hopes of furthering disarmament. Future attitude of America would depend on future attitude of Europe on this head. Signor Grandi then suggested (on Thursday) tentatively that a beginning might be made by all the Powers declaring an immediate naval holiday with no laying down of new ships for period of one year or until end of conference. On Saturday Mr. Stimson informed him that Mr. Hoover approved this proposal and had charged Mr. Stimson with sounding opinion on the subject during his forthcoming European visits. Mr. Stimson considered holiday might well be extended to all other armaments, both land and air.

3. Signor Grandi explained the latest phases of Franco-Italian naval conversations² Mr. Stimson expressing regret that agreement had not been reached. Signor Grandi indicated that French were trying to arrive at a

¹ Not printed. This telegram of July 12 reported Mr. Stimson's reception in Rome. Mr. Stimson arrived in Rome in the evening of July 8.

² See Chapter VI.

dual agreement with Italy, but that latter was determined to come to no settlement without British participation and concurrence.

4. Conversation then turned to response that Germany ought to make to the generosity other Powers were showing towards her. Mr. Stimson helped Signor Grandi by himself opening the subject of customs union. Signor Grandi explained why Italy attached so much importance to it, and hoped that an unfavourable decision by Hague Court might facilitate its abandonment for all concerned. He gave Mr. Stimson copy of the pleadings that Signor Scialoja will deliver before court. As regards German naval construction, he pointed out that naval holiday idea might enable Germany to abandon further pocket battleship without loss of face.

5. An exchange of views took place on the whole European situation. Signor Grandi said that all the minor problems, such as difficulties between Italy and Yugoslavia, or Hungary and Little *Entente*, would vanish into space if only three Powers, France, Germany and Italy, could come to a cordial agreement with Great Britain as the general arbiter. He expressed the fear that Germany would appear at Disarmament Conference in spirit 'By treaty you should all have disarmed; you have not done so, therefore I must be allowed to arm'. This false spirit could only be met by general and genuine disarmament of all concerned.

6. A brief reference was made to Russia, and Signor Grandi explained Italian necessity for commercial dealings with her in order to obtain both markets (and) supplies from the west [*sic*] by routes which could not be so easily intercepted.

7. Mr. Stimson made it clear that American policy of isolation was ended, and he was one of the first Americans whom Signor Grandi had heard speak well of League of Nations. Signor Grandi was struck by the warmth of Mr. Stimson's references to Great Britain. He said: 'Americans and British are brothers,' adding that a thorough understanding between us existed as regards European policy.

8. German financial crisis was briefly touched upon. Both statesmen agreed that German policy had been much to blame, but that now that the German house was really on fire all should co-operate to quench the flames, and the French, by hanging back, had only rendered the whole situation more dangerous.

9. Signor Grandi outlined the foreign policy of Italy and also her internal problems. Italian foreign policy was one of close co-operation with Great Britain for maintenance of European equilibrium. French aimed at security, not to say supremacy; Germans at liberty of action: Italians at being 'allowed to live.' He emphasised the difficult position of Italy, with her lack of raw materials and her rapidly increasing population with no outlet for expansion. It was on this note that the conversations closed.

Memorandum by Mr. Henderson on Discussions in Paris, July 15–July 19, for Meeting of a Conference in London to consider German Financial Situation, 1931¹

[C 5432/172/62]

I. Meeting of a Conference in London

1. On the evening of my arrival in Paris (the 14th July), I received a 'Most Immediate' telegram addressed to the Foreign Office (No. 424)² by Sir R. Lindsay to the effect that the United States Government considered that the financial position of Germany had become so serious that the immediate summoning of a conference in London was necessary.

2. Anxious to be informed of the views of His Majesty's Government in regard to this proposal before meeting the French Ministers on Wednesday, the 15th July, I telephoned to the Prime Minister and ascertained that it would be in accordance with his wishes that I should persuade the French Government to agree to a meeting of a conference in London after our return from Berlin.

3. The result of my first meeting with the French Ministers was reported in Paris telegram No. 164³ of the 15th July.

4. In that telegram I made it clear that the French Ministers were not at that moment prepared to take any immediate decision as regards the meeting of a conference as they felt that it would be a mistake to summon a conference without a preliminary decision as to its objective. The French Prime Minister expressed himself as strongly in favour of our adhering to our intention of visiting Berlin, but felt that the French Government must await our report on the situation in Berlin before coming to any final decision in regard to a conference.

5. After the meeting with the French Ministers I received a visit from the German Ambassador, who informed me that the position in Germany had slightly improved, but it was still so serious that Dr. Brüning had requested him to ask my opinion as to whether he should not at once come to Paris for purposes of consultation with the French Government. I replied that I could not at the moment advise such a course in view of what had been said by M. Laval and other Ministers in the course of the conversations which had taken place that day.

6. I then saw Mr. Stimson and informed him of the result of my discussion with the French Ministers. We agreed that we should meet the French together on the following day at 11 o'clock to continue the discussions.

7. Such was the position on the evening of Wednesday, the 15th July, when I left for the Colonial Exhibition to dine with the French Minister of the Colonies, who had arranged a dinner in my honour.

¹ This memorandum of July 20 is printed here since it summarizes the course of the negotiations covered by Nos. 194–220. Mr. Henderson went to Paris with the intention of joining the Prime Minister subsequently in Berlin.

² No. 191.

³ No. 194.

8. During the evening a message reached me from the Embassy transmitting the Prime Minister's message¹ to me which had been telephoned by Sir F. Leith-Ross, indicating that a serious situation was developing in London as a result of which it was necessary that immediate action should be taken. Having considered the position, I decided to consult the French Prime Minister without delay. Fortunately he was at hand as he had been one of the guests at the dinner.

9. I told M. Laval that the situation appeared to be such that a decision to summon a conference was urgently required, and I pressed him to agree to come to London for that conference. M. Laval strenuously resisted my proposal, supported by the French Minister of the Colonies, whom he had summoned into the consultation. He urged strongly that I should agree to a conference in Paris. Finally, after a discussion lasting over an hour, I induced M. Laval to agree, subject to the approval of the French Council of Ministers, to attend a conference in London on the following Tuesday (the 21st July) on the condition that the German Ministers would first visit Paris with a view to discussion with the French Ministers. M. Laval made it clear that, without such preliminary discussion in Paris, he had no hope of being able to induce his colleagues to agree to participate in a conference in London.

10. I told M. Laval that, while it might be necessary in the new circumstances for the Prime Minister to postpone his visit to Berlin, I would go there on the following afternoon if only for the purpose of inducing the German Ministers not to delay their departure for Paris.

11. On returning to the Embassy with a view to reporting my conversation with M. Laval to the Prime Minister, I was informed of the arrival of a further message which had been received from Sir R. Vansittart, to the effect that the urgency of the situation permitted of no further delay and that invitations had accordingly been issued to the Powers concerned for a conference in London at 6 p.m. on Monday, the 20th.²

12. Though the hour was late, I immediately got into touch with M. Laval on the telephone and informed him of this fresh development. He did not appear to take any exception to the alteration of the plans which I had agreed with him only an hour or so before; but he emphasised the fact that the proposal would only be acceptable to the French Government if the German Ministers first came to Paris.

13. It was past midnight before I was able to get into touch with London and speak with the Prime Minister, when I informed him of the position reached as a result of the action I had taken on the receipt of the latest telegrams.

14. After speaking to the Prime Minister I saw the German Ambassador, whom I had asked to call upon me at the Embassy. I told him that I had just informed M. Laval that a conference had been called to commence on Monday next, and that he had informed me that the French Government could only go to London if preliminary discussions took place with the German Ministers in Paris. This had caused me to change the opinion I had

¹ See No. 207.

² No. 198.

expressed earlier in the evening, and I now considered [? it] vital that the German Ministers should come at once to Paris. M. von Hoesch undertook to communicate by telephone with Berlin and let me know the decision of the German Ministers in the morning.

15. On Thursday morning (the 16th) M. von Hoesch informed me that he had received a reply from Berlin, and that he was communicating with M. Briand to the effect that, if the French Government issued an invitation to the German Ministers, they were willing to come to Paris, but could not leave Berlin before Friday evening (the 17th).

16. After a further conversation with the Prime Minister reporting this development, I proceeded to the Ministry of the Interior for the meeting with the French Ministers and Mr. Stimson, which had been arranged on the preceding day.

17. After elaborating proposals for the assistance of Germany, which he said he intended to submit for the consideration of the Council of Ministers, which had been summoned to meet at 5 p.m. that afternoon, M. Laval stated that, after the Ministerial Council had taken place, M. Briand would invite the German Chancellor and Dr. Curtius to come to Paris immediately. M. Laval said that the first act on their arrival would be a Franco-German conversation. This was essential in the present state of French public opinion. Then would follow a general conversation in which British, French, Americans and Germans would participate. M. Laval stated that it would be essential, so far as his Government was concerned, that a decision of principle should be taken. Ministers could then proceed to London to settle the details of application of these principles. I then said care would have to be taken; only America, Great Britain, Germany and France would be represented in Paris, and other Powers might feel aggrieved if the general lines of agreement were reached in their absence.

18. That afternoon I received the Prime Minister's telegram in response to a suggestion I had made that Sir F. Leith-Ross might come to Paris, urging me to resist any tendency in the direction of the development of the Conference in Paris, and deprecating a visit by Sir F. Leith-Ross to Paris lest it should confirm or strengthen that tendency.

19. I replied that I had throughout resisted any idea of the transfer of the Conference from London to Paris; but that the chances of the French Ministers attending the Conference in London would be seriously prejudiced if any attempt were made to interfere with the arrangement under which the French and German Ministers would first meet in Paris in order to secure agreement in principle, and would then take part in a general conversation at which Mr. Stimson and myself would be present.

20. On the following morning, Friday, the 17th, I attended a further meeting with the French Ministers at the French Ministry of the Interior, in company with Mr. Stimson. In the course of this meeting there was considerable discussion as regards the programme and character of the conversations in Paris. Mr. Stimson and I both made it clear that we had no authority from our Governments to allow the meetings to take the place of the Con-

ference which had been summoned to meet in London, and that we could not participate in any discussions which might have the effect of anticipating the decisions of the London Conference.

21. M. Laval said that he appreciated the position and was prepared to accept our conditions, although he made it clear that, unless agreement was reached in principle between the French and German Ministers, the French Government could not be present at the London Conference.

22. I thought it better to reserve any final decision as regards participation in the joint conversations arranged for Sunday, the 19th, with the German Ministers, pending consultation with the Prime Minister.

23. On informing the Prime Minister by telephone of the events of the morning's proceedings, I received his authority to tell the French Prime Minister that I would attend the joint conversations on Sunday on the conditions which had been laid down at the meeting on the previous day.

24. I duly informed M. Laval of this decision on the following morning and that it was my intention to leave Paris by the 4 o'clock train on Sunday (the 19th).

25. M. Laval said that this arrangement would meet the views of the French Government and assured me that he would do everything possible to reach agreement with the German Ministers.

26. The German Ministers arrived in Paris at 2.5 p.m. on the afternoon of the 18th July, and after a preliminary and private conversation with M. Laval and M. Briand, a Franco-German conversation took place at 4.30 p.m. at the Ministry for Foreign Affairs. A communiqué issued at the end of the meeting stated that it had had 'a most frank and cordial character, and had dealt not only with the measures necessary to meet the financial crisis, but also the whole field of Franco-German relations, in the mutual desire to establish a lasting collaboration between the two nations'. The communiqué added that the Franco-German conversations would be continued this afternoon, the 19th July.

27. Early to-day I received the German Chancellor at the Embassy, and a few minutes later Signor Grandi. A joint conversation¹ then took place at 10 a.m. at the Ministry for the Interior. This was attended by the French and German Ministers, by myself, Mr. Stimson and Mr. Mellon, Signor Grandi, M. Hymans and the Japanese Ambassador in Paris. The German Chancellor gave a brief outline of the economic and financial crisis in Germany, and indicated the need of a loan of 2 milliard marks as cover for the German notes circulation and further important short-term credits in place of the large amount of capital which had recently fled abroad. M. Laval stated that the Franco-German conversations had reached a stage which would make it possible for the French Government to be represented in London, particularly in view of the fact that the German Ministers had accepted the view originally expressed by Mr. Stimson, that the conference would be confined to the discussion of the question of the financial situation in Germany.

¹ No. 219.

II. *French attitude to Financial Assistance to Germany*

28. I will now summarise the information derived from the informal conversations in Paris as to the conditions on which the French Government will be disposed to participate in financial aid to Germany. The first object of the French, as appears particularly from my conversation with the French Ministers on the 15th July, was to obtain from the German Ministers definite information on conditions in Germany, both financial and political. 'We must know', said M. Laval at the meeting of the 15th July, 'exactly what the situation is. Can the present Government commit itself in the name of the country? Does it represent her? Is there a danger of its being replaced by Hugenberg and Hitler? Is Germany ready to accept our conditions?' From this and subsequent conversations with the French and American Ministers on the 16th July and with M. Flandin on the 16th July, I gathered that these conditions—those of the grant of financial assistance—included German acceptance of some financial supervision destined¹ to watch the use made of that assistance, and German offers of adequate security for the service and amortization of the loan and of an assurance respecting a 'political moratorium'.

29. On the assumption that these conditions were fulfilled, the French Ministers indicated to me, notably in the interviews of the 16th July, that they would be ready to proceed to London to discuss the question of the grant of financial assistance to Germany. In their view, formed *before* meeting the German Ministers, this assistance would most suitably be a loan of some 500 million dollars, the object of which would be to restore confidence. The loan would have to be issued—

- (1) As an international loan in New York and London as well as in Paris;
- (2) In respect of the French portion under the French Government's guarantee, without which it could not be subscribed;
- (3) Against a security covering the loan as a whole and preferably the German Customs receipts;
- (4) To form a kind of reserve fund placed at the disposal of the Bank for International Settlements to be used for the support of the Reichsbank under the supervision of a committee composed of representatives of the lending countries; the special function of this committee would be to report any attempt by Germany to grant foreign loans or credits or generally to continue her present extravagant expenditure. (N.B.—M. Laval specially mentioned increases in military expenditure and the building of new warships.)

30. On learning from me on the evening of the 15th July of the serious repercussions on the London Market of a German financial collapse, M. Laval made it clear that the French Government would be anxious to do what was in their power to assist in preventing any such development. Beyond this the French Ministers told me that France herself has momentarily little direct financial interest in Germany, and M. Laval quoted on the 16th July the

¹ This word is probably an error for 'designed'.

case of the Crédit Lyonnais, which was supposed to be deeply involved in German credits, but the German holdings of which, in fact, amounted only to some 80 million francs. According to the French Ministers, the immediate French interest in German financial stability was the resumption of reparation payments at the end of the Hoover postponement year. On the 16th July M. Laval stated that the French view was that the loan would imply no abandonment of the Young plan, and that the London Conference would not be competent to discuss the Young plan or the treaties of peace.

31. Mr. Stimson stated at the meeting of the 16th July that the London Conference would only be attended by American representatives on condition that its task was limited to consideration of the German financial crisis and that a public statement to that effect by His Majesty's Government was necessary. His view was that the conference could not take cognisance of the Treaty of Versailles or of war debts. On the other hand, in indicating the probability that American banks would be willing to take up part of the loan provided that part had not to be subject to a Government guarantee (N.B.—this proviso was accepted by M. Laval) he claimed that the service of the new loan should have priority over reparation payments. M. Laval refused to admit this priority.

32. The statements made by the German Chancellor and M. Laval at the general conversation on Sunday morning show that Germany requires not merely an immediate loan of 500 million dollars to cover German note circulation, but also important short-term credit to replace the milliard of marks recently withdrawn abroad. Mr. Stimson took the view that equally important with the task of raising this money was that of finding means to prevent a fresh drain on German credit. It was agreed, however, that the only question to be considered at the London Conference was the financial crisis in Germany.

FOREIGN OFFICE, *July 20, 1931*

No. 194

Lord Tyrrell (Paris) to Sir R. Vansittart (Received July 15, 6.40 p.m.)

No. 164 Telegraphic: by telephone [C 5247/172/62]

PARIS, *July 15, 1931*

Following from the Secretary of State for Foreign Affairs for the Prime Minister:—

I discussed the present position at length at the Quai d'Orsay this afternoon with the French Prime Minister, M. Briand, the French Minister of Finance and the French Minister for the Colonies. M. Berthelot and other officials of the Quai d'Orsay were also present.

French Ministers had already heard from the French Embassy in London of the American proposal for a conference. I informed them that I had that morning been in communication with you in regard to the proposal and the expediency of postponing our proposed visit to Berlin.

French Ministers were disinclined to take any immediate decision as regards the summoning of a conference, as they felt it would be a mistake to summon a conference without the way having been cleared as to its objective.

M. Laval expressed himself strongly in favour of our adhering to our intention of visiting Berlin, as it would give us an opportunity of forming our own conclusions as regards the real situation of the German Government.

The French Government were certainly disposed to join with the British and American Governments as regards coming to the help of Germany, but they felt they should await our report as a result of our visit to Berlin before coming to any final decision on this matter or in regard to a conference.

In view of this emphatic opinion of the French Ministers, I think you will agree that we should not allow our visit to Berlin to be interfered with. I have just seen the German Ambassador, who has intimated that the position in Germany has somewhat improved to-day.

I am just off to see Mr. Stimson, after which I will again telegraph.

No. 195

Lord Tyrrell (Paris) to Sir R. Vansittart (Received July 15, 8.10 p.m.)

No. 165 Telegraphic: by telephone [C 5248/172/62]

PARIS, July 15, 1931

Following for Prime Minister from Secretary of State:—

My telegram No. 164.¹

I have just returned from seeing Mr. Stimson. I reported to him the substance of my conversation with French Ministers at the Quai d'Orsay.

It has been agreed that we shall meet French Ministers together tomorrow at 11 o'clock to continue discussions.

¹ No. 194.

No. 196

Lord Tyrrell (Paris) to Sir R. Vansittart

No. 166 Telegraphic: by telephone [C 5249/172/62]

PARIS, July 15, 1931, 8.10 p.m.

Following for Prime Minister from Secretary of State:—

My telegram No. 164.

French Ministers press me very strongly to agree to postponement of meeting of experts in London due to take place on Friday, as they urge that meeting was undesirable in the light of more important issues now to be decided.

I resisted this suggestion on the ground that no substantial reason could be advanced for taking such a course; moreover, most of the delegates would be on the way to London.

French Ministers expressed hope that care would be taken to prevent Anglo-French divergences in committee, since were this to take place effect might be unfortunate for further co-operation which was so essential in present crisis.

No. 197

Mr. Newton (Berlin) to Sir R. Vansittart (Received July 15, 1931, 10.0 p.m.)
Unnumbered Telegraphic: by telephone [C 5246/172/62]

BERLIN, July 15, 1931

The following is my reply to a telephone message received from the Prime Minister at 8 p.m. and gives the reply of Dr. Brüning, whom I have personally seen:—

Dr. Brüning greatly desires visit to take place. He considers that the fact of its taking place will have reassuring effect.

But he also favours immediate Conference of Ministers, and German Ambassador in Paris was instructed to-day to discuss further with Mr. Henderson suggestion he had already made to him that a Conference of Ministers should take place forthwith in Paris. It is understood that French Government expressed doubts as to whether such a conference could take place at any rate until a few days had elapsed to prepare French public opinion. German Ambassador is, however, instructed to emphasise to Mr. Henderson danger of financial trouble spreading all over South and East Europe unless immediate action is taken. Dr. Brüning said that Germany was trying to avert moratorium. If situation was not remedied moratorium might have to be declared in a dozen different countries and financial situation get beyond control, as resources required to save the situation became much greater with every day's delay. Dr. Brüning's first choice would therefore be conference in Paris (or London) forthwith followed by visit of Mr. MacDonald and Mr. Henderson, which in that case might have to be postponed for a day or two. Second and almost equally satisfactory alternative would be visit of British Ministers to Berlin as arranged, followed immediately, if possible, by Conference of Ministers in Paris or London.

No. 198

Sir R. Vansittart (for the Secretary of State) to His Majesty's Representatives at Washington, Paris, Brussels, Rome, Tokyo and Berlin
Telegraphic¹ [C 5255/172/62]

FOREIGN OFFICE, July 16, 1931, 1.15 a.m.

In view of critical international situation, His Majesty's Government have decided that it is now necessary to summon immediate Conference of

¹ No. 542 to Washington; No. 200 to Paris; No. 44 to Brussels; No. 208 to Rome; No. 93 to Tokyo; No. 159 to Berlin.

Ministers which was foreseen at the time of invitation for Experts' Committee. It is desired that Conference of Ministers should meet in London at 6 o'clock on Monday. Experts' Committee will, as arranged, arrive on Friday and will put themselves at disposal of Ministers on Monday.

Prime Minister and Mr. Henderson will go to Berlin as arranged on Friday, returning in time for Conference of Ministers on Monday, when it is hoped Dr. Brüning will accompany them.

Please inform Government to which you are accredited, and say that His Majesty's Government most earnestly trust that Ministers concerned will be in London in time.

No. 199

Lord Tyrrell (Paris) to Sir R. Vansittart
No. 168 Telegraphic: by telephone [C 5284/172/62]

PARIS, July 16, 1931, 4 p.m.

Following from Secretary of State for Prime Minister:—

I met French Ministers and Mr. Stimson this morning.

2. M. Laval explained that he would submit following proposal to Ministerial Council at 5 p.m. this afternoon. There should be an international loan to Germany guaranteed by lending Governments, who would undertake to obtain approval of their respective Parliaments within four months. Pending such approval, central banks would immediately make advances on this loan. Service of loan would be secured by German customs, and an international control would be instituted similar to that functioning under Dawes plan. No mention was made this morning of any political assurances from Germany, but from statements made to me by French Ministers yesterday it seems probable that Germany will be expected to subscribe to a 'political moratorium', the duration of which would be co-terminous with that of loan.

3. Mr. Stimson said any Government guarantee of loan would be foreign to American practice and tradition of non-intervention in European affairs. M. Laval replied that, in these circumstances, loan could be issued in two parts, European part to be guaranteed by Governments, and American part to be issued under whatever circumstances Americans preferred. Customs security would be common to both parts. Mr. Stimson promised to consider this suggestion, and M. Laval said he would modify accordingly his proposal to Ministerial Council. Mr. Stimson added that new loan would have to be given priority over all German payments, and M. Laval said that French Government would never admit this.

4. M. Laval said that after Ministerial Council this afternoon M. Briand would invite Drs. Brüning and Curtius to come to Paris immediately, and that they might be expected to arrive at latest on Saturday morning. First act on their arrival would be a Franco-German conversation. This was essential in present state of French public opinion. It could be preceded to-

morrow by a further Franco-British-American conversation and followed by a general conversation (French, British and Americans) with German representatives.

5. It would be essential that at this latter meeting decisions of principle should be taken. Ministers could then proceed to London to settle details of application of these decisions.

6. M. Laval was insistent that task of this conference should be strictly limited in advance to question of financial aid to Germany. Mr. Stimson agreed, and made it clear that American Government could not take part in any conference going beyond this.

(Repeated to Berlin, No. 161, and Washington, No. 545, by Foreign Office.)

No. 200

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 170 Telegraphic: by telephone [C 5285/172/62]

PARIS, July 16, 1931, 4 p.m.

Following for Prime Minister from Secretary of State:—

I mentioned to M. Laval possibility of a visit to Chequers on Saturday. He urged that in view of programme discussed this morning (see my telegram No. 168¹) it would be very difficult for French Ministers to absent themselves.

He asks me nevertheless to express his deep appreciation of your suggestion.

¹ No. 199.

No. 201

Sir H. Rumbold (Berlin) to Sir R. Vansittart (Received July 16, 5.30 p.m.)
No. 128 Telegraphic [C 5288/9/18]

BERLIN, July 16, 1931, 3.22 p.m.

Chancellor gave me this morning the following appreciation of the situation, which I have telephoned to the Prime Minister:—

Banks will open to-day in order to enable firms and employers to draw out money necessary for wages and salaries. Unemployment insurance will also be paid out; wages are payable on Fridays. The only doubt is as to whether there will be sufficient actual cash in the form of notes to pay the subsidiary branches throughout the country of great concerns. Tomorrow will therefore be critical day, as effect of emergency decrees dealing with payment of salaries cannot be apparent until then.

Chancellor thinks the German Government can hold out in the present conditions until middle of next week provided situation in the surrounding countries does not deteriorate. He has pessimistic accounts from Poland, otherwise the country has been exceptionally quiet during the last three or four days, as everybody is waiting to see what will happen.

Chancellor's secretary informed me some money was actually returning to Germany owing to the fact that Germans who have sent money abroad are drawing out of banks here and are recalling some of their remittances.
(Repeated to Paris.)

No. 202

Sir H. Rumbold (Berlin) to Sir R. Vansittart (Received July 16, 7.45 p.m.)
No. 129 Telegraphic [C 5297/2018/18]

BERLIN, July 16, 1931, 6.25 p.m.

Following for Prime Minister:—

Chancellor has asked me to convey to you and Mr. Henderson his great regret that you had found it necessary to give up your visit to Berlin. He hoped that you would not postpone your return visit too long, as that visit would produce a very valuable impression in Germany. He even hoped that it would be possible for you to come in about a fortnight's time.

(Repeated to Paris.)

No. 203

Sir H. Rumbold (Berlin) to Lord Tyrrell (Paris) (Received July 16, 10.0 p.m.)
No. 130¹ Telegraphic [C 5310/9/18]

BERLIN, July 16, 1931, 8.30 p.m.

Following for Mr. Henderson:—

I am informed from an excellent source that Hugenberg had 23 million marks in Darmstadt Bank, this presumably representing his campaign fund and private fortune. As Government have put a commissioner in to supervise the bank, they can paralyse Hugenberg's activities.

Banking restrictions will in fact limit all political activities, including those of National Socialists.

¹ This telegram was addressed to Paris and repeated to the Foreign Office as No. 130.

No. 204

Sir H. Rumbold (Berlin) to Lord Tyrrell (Paris) (Received July 16, 8.10 p.m.)
No. 132¹ Telegraphic [C 5311/172/62]

BERLIN, July 16, 1931, 6.35 p.m.

Following for Mr. Henderson:—

In accordance with your instructions, I said I hoped that Chancellor would find it possible to leave for Paris to-night. He said he had carefully discussed the matter with his technical advisers and regretted that he could

¹ This telegram was addressed to Paris and repeated to the Foreign Office as No. 132.

not leave before to-morrow. He must wait and see the effect of Government's emergency decree in regard to payment of salaries and wages. If there were disorders he would be obliged to proclaim a state of siege for the next few days. He had also to examine technical proposals being drawn up by competent departments for grant of credits to Germany which he would have to submit to the Conference of Ministers. He would, however, see whether he could not leave for [? Paris] at 4 p.m. to-morrow. This would enable him to arrive in Paris at 11.18 Saturday.

No. 205

Lord Tyrrell (Paris) to Sir R. Vansittart
No. 171 Telegraphic: by telephone [C 5286/172/62]

PARIS, July 16, 1931, 7 p.m.

I have just returned from American Embassy, where M. Flandin, the French Minister of Finance, was good enough to furnish Mr. Stimson and myself more detailed explanations as regards ideas of French Government for affording financial aid to Germany.

2. M. Flandin said that Governor of the Bank of France and the French financial authorities had reviewed the position.

3. According to figures furnished by Dr. Luther, foreign credits in Germany amounted to 8 milliard marks, of which 3 milliard had been lost on Monday. There still remained 5 milliard marks divided into 3 milliard deposits and about 2 milliard acceptances.

4. Governor of Bank of France had arrived at conclusion that, provided that decision was taken by foreign banks to maintain those credits, loan of 500 million dollars would suffice to restore confidence. Total cash deposit and acceptances were between 12 and 15 hundred million dollars.

5. M. Flandin said that French Government considered loan should be utilised purely for purpose of restoring confidence. He considered ten-year period for loan would meet requirements.

6. The French Government had not come to any final decision on all details of proposed assistance. They had in view, however, that credit should be placed at the disposal of the Reichsbank under the control of the Bank of International Settlements and a small control committee, something in the nature of the arrangement in force under the Dawes plan, the control to be limited to the new loan.

7. As the guarantees for the functioning of the Young plan had not been sufficient, something more was required to give security to the investors in the new loan.

8. French Government were of the opinion that the new loan should be guaranteed on the receipts of the German customs. This guarantee was less than that arranged for under the Dawes plan, when the revenues other than customs had been earmarked for the payment of debt due by Germany.

9. M. Flandin said that the French desired to secure such financial reconstruction of Germany as would ensure resumption of payments under the Young plan at the end of the Hoover year's moratorium.

10. The loan would be something in the nature of a reserve fund placed at the disposal of the Bank of International Settlements for the purpose of supporting the Reichsbank, the money to be paid out to the Reichsbank by the Bank of International Settlements under the supervision of the control committee.

11. It was no part of the French idea, through the medium of the control committee, to interfere with ordinary industrial transactions. They attached importance, however, to precluding foreign loans to Germany and special commercial credits such as those recently made by Germany to Russia and Turkey, which the French financial authorities considered bad policy and in regard to which they wished in the future to safeguard the money to be advanced.

12. Advances would be made to Reichsbank on the basis of the weekly statement of that institution.

13. Guarantee Committee assisting the Bank of International Settlements would be composed of representatives of the countries advancing the money.

14. M. Flandin said he perfectly appreciated the attitude of the United States Government towards providing Government guarantee for loan, but, so far as France was concerned, there would be no possibility of raising money without French Government's guarantee.

15. M. Flandin suggested that the loan might be divided between the United States, Great Britain and France in equal parts, each party to have equal rights as regards security of customs.

No. 206

Lord Tyrrell (Paris) to Sir R. Vansittart
No. 172 Telegraphic: by telephone [C 5287/172/62]

PARIS, July 16, 1931, 7 p.m.

Following received by telephone to-day from Berlin:—

Sir H. Rumbold has seen the Chancellor in accordance with the Secretary of State's instructions, and said that he hoped that the Chancellor would be able to leave for Paris to-night. The Chancellor said that he had discussed the matter this morning with his technical advisers and found that it would be impossible for him to leave before to-morrow. To-morrow was a critical day in Berlin, and he must see how events developed; but he would try to leave by the train at 4 p.m., which would get him to Paris the first thing on Saturday morning. Dr. Curtius will not travel independently of the Chancellor, but will accompany him. Sir H. Rumbold is sending the Secretary of State a short telegram explaining why the Chancellor cannot leave until to-morrow evening probably.

Lord Tyrrell (Paris) to Sir R. Vansittart
No. 174 Telegraphic: by telephone [C 5298/172/62]

PARIS, July 16, 1931, 10 p.m.

Reference withdrawal of gold from London referred to in telegram¹ telephoned by Sir F. Leith-Ross from Prime Minister to Secretary of State on July 15, I have enquired in Paris with a view to ascertaining to what degree the heavy withdrawals of 3 and 4½ million sterling mentioned by Sir F. Leith-Ross as having been effected yesterday and to-day respectively have been occasioned by French action, and whether such action would have been due to interested motives, political or otherwise.

2. It would appear that, in France as elsewhere, financial institutions, fearing exceptionally heavy calls upon them for cash as a result of the severe financial crises which have taken place either in Germany, Austria or Hungary, have momentarily sought a high degree of cash liquidity. Thus the great French banks, which have tended to maintain large credits in London in recent months owing to higher interest obtainable, may well have withdrawn considerable sums in order to be prepared for any eventuality in France, as they did last autumn after the German elections and the Oustric crash had caused the run on many of their branches in provincial towns. Confirmation of this keen desire for liquidity was afforded to-day to the commercial counsellor by the Director-General of the *Mouvement des Fonds*, who also cited to him the fact that since yesterday the Central Bank of French Savings Banks had turned into cash no less than 53 millions' worth of national defence bonds. The managing director of an important bank stated that the strong incentive to bankers and others to have ready cash was also indicated by the fact that the discount rate for best bills has at ninety days moved up in Paris to-day from 1¼ to 1½ after the rate had been 1 to 1¼ for a very long period.

3. Certain French banks which have had heavy commitments in Germany have also thought it well to reduce their holdings in Great Britain, in order to counterbalance eventual deficiency in these German commitments.

4. Notwithstanding the constant difficulty of tracing the real authors of movement in international transfer transactions, it is stated here that Paris actually took yesterday and to-day only £600,000 worth of gold from London. It is also stated here as confirmatory of the comparatively small movement of gold from London that the assayers in Paris are not fully occupied.

5. Various explanations are likewise given of the magnitude of the withdrawals of gold from London. One suggestion is that Holland and other countries have been impressed with the necessity of great liquidity. It is likewise asserted that a part of the demand may well have come from German banks, which have maintained credits in London and which, unable to get the gold from the Reichsbank, have been obliged to obtain gold in London

¹ Not printed.

in order to secure immediate financial resources in connexion with discount transactions in Germany.

6. A not inconsiderable influence on the gold withdrawal tendency from several centres is currently ascribed to the belief that British banks are rather heavily engaged in German credit and that some of them might even be compromised as a consequence. This might have led to withdrawal of sterling against dollars, Swiss or French francs or florins.

No. 208

Sir R. Vansittart to Lord Tyrrell (Paris)

No. 202 Telegraphic [C 5284/172/62]

FOREIGN OFFICE, *July 16, 1931, 11.30 p.m.*

Following from the Prime Minister for Secretary of State:—

Your telegram No. 168.¹

You will no doubt wish for some expression of views for your information and assistance. We do not of course wish to be obstructive, but we think you should be aware of the following difficulties, which cause us some apprehension:—

So far as we are concerned, a guaranteed loan would present great difficulties. Any such loan would involve perpetuating the system which has led Germany into the present situation. For five years she has been borrowing in order to pay reparations, and so long as that system continues no restoration of confidence can be fully effective. We fear that public opinion in this country could not be got to accept proposal to guarantee loans for Germany which would be used to pay reparations mainly to France. Apart from this, however, as you know, we have had demands for such guarantees from distressed Dominions, and the mere rumour that such proposal was contemplated for Germany has provoked criticism in press. Further, the proposal that central banks should advance money, pending issue of guaranteed loan, is inapplicable here, as we could not, as has been already pointed out on a previous occasion, press the Bank of England to make such advance in view of heavy commitments already undertaken for Central Europe.

Leaving these objections for the moment aside, the proposal appears to us full of difficulties. It seems to us likely to be demonstrated by experience that German Government would resist revival of Dawes controls, which it was cardinal feature of Young plan to abrogate. The question of priority for the service of such a loan would also constitute difficulty, as you indicate, and on this point our view would coincide with that of Mr. Stimson.

The proposal would obviously need very careful consideration in all its aspects, and it does not seem to us that the progression [*sic*] of conversations indicated in your paragraph 4 would conduce to successful issue of conference to be held in London. The improvement in financial situation which has

¹ No. 199.

taken place to-day confirms wisdom of our action yesterday in summoning that conference. It seems to us essential that conversations taking place in Paris should not, if success is to be assured, assume appearance of replacing or even prejudging London Conference, especially if anything like a deadlock should begin to become apparent at the earlier stage. It is to this point that our apprehensions refer. The business of the London Conference will be to consider the financial position of Germany and the best means for remedying it. We continue to hold that a solution of these difficulties is more likely to be attained in London. If you see that the conversations in Paris are in danger of an *impasse* we hope that you will then be able to use your influence, if possible in conjunction with Mr. Stimson, to urge that discussions should be transferred to or continued in London as originally contemplated by His Majesty's Government and United States Government.

We fully realise the difficulties with which you are now confronted in Paris, and hope that the foregoing may be useful to you in dealing with them.

No. 209

Mr. Newton (Berlin) to Mr. A. Henderson (Received July 17)

No. 508 [C 5343/11/18]

BERLIN, July 14, 1931

Sir,

I have the honour to report that the parties of the Right, after some weeks of tranquillity, are now evincing a disposition to renew their political activities. The referendum¹ in Prussia is to take place on the 9th August, that is to say, on the day fixed by the Government for the annual celebration of the adoption of the Constitution of Weimar. On the 9th instant the Communists and Nationalists in the Prussian Landtag joined forces in an effort to bring about the dissolution of that Chamber. The attempt was defeated by nearly forty votes.

2. On the same day the Stahlhelm issued a manifesto calling upon its members to open the referendum campaign. The Hoover proposal had, it asserted, failed to attain its aim. It was bound to fail, because in the absence of a determined National Government Germany was helpless. Germany was at the mercy of French policy as the present German Government was still persisting in the vain policy of 'understanding' with France. The remainder of the manifesto was directed against the international capitalists into whose hands the fate of Germany has been committed by the folly of improvident Governments.

¹ In February, 1931, the Stahlhelm organisation addressed to the Prussian Ministry of the Interior a demand for a preliminary canvas whether a referendum should be held on the question of the dissolution of the Prussian Landtag. The dissolution was not due until May, 1932, but the parties of the Right considered that the continuance in office of the Centre-Socialist coalition was inconsistent with the results of the general election to the Reichstag in September 30. The holding of a referendum was constitutionally necessary if a demand for it was made by not less than 20 *per cent.* of the electorate.

3. On the 9th July an important political development took place. After the failure of repeated attempts on the part of the Hugenberg Nationalists to reach some kind of working agreement with the National Socialists, a meeting was brought about between Hitler and Hugenberg in Berlin on that date. After conversation behind closed doors a statement was issued to the press which ran as follows:—

‘The parties of the National Opposition hereby state: A meeting of the National Opposition took place to-day in Berlin and was attended by Dr. Hugenberg and Adolf Hitler. The attempt of those at present in power in this country to carry on a policy of fulfilment in a fresh disguise despite the visible collapse of the country and its economic life caused the meeting to pass certain definite unanimous resolutions. The National Opposition will now enter upon the decisive fight for the overthrow of the present system.’

4. Coming at such a moment this manifesto aroused grave misgivings in Government circles, and the Chancellor's organ ‘Germania’ stated that the least the so-called ‘National Opposition’ could do at a moment of grave national danger like the present was to avoid issuing political challenges. It went on to say that the so-called National parties never seemed to hesitate to sacrifice the interests of the country to their own private political interests. It would indeed seem, the newspaper added, as though the Opposition parties were loath to see the Government successful in their efforts to avert an economic crisis. Strange to say, the ‘National Opposition’ replied with unusual reasonableness to ‘Germania’s’ reproaches. The reply furnished through the press asserted that Hugenberg and Hitler would not be in the least averse from co-operating with the Government if the Government would only show more grit and determination. The Hoover proposal came as a heaven-sent opportunity. Not only had it saved Germany from an immediate collapse, but it had opened up unexpected opportunities for a decisive policy of revision. So long, however, as the same clique, who were responsible for the Young plan, remained in power, so long would the world abroad fail to believe in any real German desire for liberation. To this ‘Germania’ replied that the Brüning Cabinet was not responsible for the Young plan, and that internal strife would destroy the undoubted possibilities which were now presenting themselves for a determined policy of revision. The Brüning Cabinet had been working for one and a half years at high pressure to redeem the mistakes of the past. They were now faced with a new constellation in the world of foreign policy, and they were prepared to make use of it provided the opportunity was not spoiled by an outbreak of internal political hostilities.

5. The economic crisis has not so far reacted directly on the political situation. This morning for the first time Opposition newspapers evince signs of impatience. The ‘Deutsche Allgemeine Zeitung’ which recently led the attack on Dr. Curtius returns to the charge with a demand for ‘a National Cabinet of concentration to restore confidence and overcome panic at home and abroad’. The ‘National Liberal Correspondence’, writing on behalf of

the People's party, supports this proposal and declares that in other countries all the political parties would concentrate in order to support the Government of the day.

6. Whether a demand for the convocation of Parliament would meet with extensive support is uncertain. No party has laid the blame for the crisis at the door of the present Administration, though there are signs of impatience with the Minister of Finance and with the exaggerated reticence of official circles. It is complained that the imminence of any danger continued to be denied until the breakdown occurred, and provincial newspapers severely criticise a communiqué issued about three weeks before the crash by Wolff's Bureau stating that rumours regarding impending difficulties in the case of a leading Berlin bank were entirely without foundation.

I have, &c.

B. C. NEWTON

No. 210

Sir H. Rumbold (Berlin) to Sir R. Vansittart (Received July 17, 9.0 a.m.)
No. 133 Telegraphic [C 5332/172/62]

BERLIN, July 16, 1931, 8.35 p.m.

I took advantage of a second interview which I had with Chancellor to-day to refer to projected Austro-German Customs Union. Speaking personally, I laid stress on help which England had afforded to Germany in present crisis, such as immediate acceptance without conditions of Hoover proposal, payment of £4 million by Bank of England to Creditanstalt, which was of direct benefit to Germany, and fact that, as I understood, English houses with credits in Germany had not withdrawn them. Could not German Government make some gesture in general interest in return for this attitude? Such a gesture was expected by Government and public opinion in England. Projected customs union had aroused antagonism both in France and Italy as well as in other countries.

I pointed out that Hoover proposal had created an entirely new situation overshadowing any such scheme as projected Austro-German Customs Union, and I suggested that, without prejudice to finding of Hague Tribunal, German Government might give out that in view of altered circumstances of the case they did not propose to proceed with projected customs union.

Chancellor fully recognised [¹? assistance¹] which he had received from England during present crisis, and said that he would do all he could to meet wishes of His Majesty's Government. He thought he would be able to find a solution of the question which would be satisfactory both to His Majesty's Government and to the French.

Position was different as regards pocket battleship 'B'. He said that he had informed United States Ambassador that the German Government

¹ The text here is uncertain.

would not proceed with pocket battleship 'C' next year. As regards pocket battleship 'B', I understood him to say that 9 out of 10 million marks voted on March 30 had already been spent. The Chancellor added that if he were to cease work altogether on that battleship he ran the risk of antagonising the younger element in Reichswehr, who might have leanings towards National Socialists. He had to be very careful, for he depended on Reichswehr for maintenance of order in the country. I enquired why he had not given greater publicity to the decision of the Government in making a cut of 50 million marks in defence estimates. An authoritative statement on the subject would produce an excellent effect. He said that a statement on the subject had appeared in the German papers and in one French paper. The 50 million marks would be saved in the reductions in expenditure on munitions of war and on naval estimates.

No. 211

Lord Tyrrell (Paris) to Sir R. Vansittart
No. 175 Telegraphic: by telephone [C 5313/172/62]

PARIS, July 17, 1931, 11.30 a.m.

It is evident from press comments of last night, and especially this morning, that there will be strong resistance here to visit to London in present circumstances. Argument in and outside press is that all Ministers are now in Paris. Why should they go to London, when transfer of conference to Paris would mean merely one or two Ministers crossing Channel from London?

General indignation is expressed in press at what is called cavalier manner in which London, without consulting Paris, while conversations were proceeding here, issued invitations for London Conference.

I understand that grave doubts are expressed as to whether the Germans will give political and financial guarantees which are considered indispensable for French participation in any loan. Apparently even in the Cabinet at last night's meeting M. Laval encountered strong opposition from certain Ministers, notably M. Tardieu and M. Maginot, who claimed that the guarantees proposed were inadequate. In these circumstances M. Laval apparently decided to postpone publication for the time being of conditions he proposes to offer Germans.

This will give time to influence public and press opinion in direction of moderation. All my information is that M. Laval himself strongly favours a moderate attitude, but general feeling is that pressure will have to be brought to bear both by ourselves and Americans before Germany will come into line.

Leading article in yesterday's 'Times' has created bad effect here, and my informants tell me that continuance of articles of that character will not ease M. Laval's task. Further, it is feared here that a continuance of such articles will increase danger of situation by stiffening German attitude.

Lord Tyrrell (Paris) to Sir R. Vansittart
No. 176 Telegraphic: by telephone [C 5316/172/62]

PARIS, July 17, 1931, 1.35 p.m.

Following for Prime Minister from Secretary of State:—

After an hour and a half's very difficult discussion the general sense of this morning's meeting was that (1) French would meet German Ministers on their arrival to-morrow afternoon and endeavour to get an agreement with them on the terms (*i.e.*, guarantees and assurances) on which French financial help would be forthcoming for Germany, and (2) that a general conversation would be held on Sunday morning at which French, German, British and American Ministers would be present as well as Italian and Belgian representatives, who would then be passing through Paris, and possibly also a Japanese representative. To this meeting M. Laval would report result of his conversations with German Ministers on Saturday.

2. Mr. Stimson and I were in complete agreement in insisting that Sunday's meeting should in no sense be a conference to take decisions, but a conversation in which M. Laval would report to us his discussions with German Ministers. We were both agreed that Sunday's conversations could in no way anticipate London Conference.

3. It was made clear by M. Laval that unless agreement was reached in principle between French Government and German Ministers, French Government could not be present at London Conference.

4. It is obvious that this might involve pressure being brought to influence German Ministers by those participating in conversations on Sunday, especially Mr. Stimson and myself.

5. Under these circumstances I felt it necessary to reserve for your decision question of our representation at conversations on Sunday, and I have promised to inform M. Laval on hearing from you.

No. 213

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 17, 7.30 p.m.)

No. 435 Telegraphic [C 5356/172/62]

WASHINGTON, July 17, 1931, 12.24 p.m.

Morning papers publish the following statement issued by the President yesterday evening:—

'As has already been announced, Secretary Stimson will attend the conference in London which has been called by British Government for Monday to consider the present emergency problems in Central Europe. I have asked Secretary Mellon, if consistent with his plan, also to attend in order that we may have the benefit of his advice as well.

'It is our understanding that conference is limited entirely to question of present emergency.'

Sir R. Lindsay (Washington) to Mr. A. Henderson
(Received July 17, 9 p.m.)
No. 436 Telegraphic [C 5372/172/62]

WASHINGTON, July 17, 1931, 1.24 p.m.

Your telegram No. 518.¹

In the note received this morning United States Government state that United States Ambassador in Brussels will represent them at experts' meeting, and that this function, in view of character of discussions which will take place, will be largely that of an observer.

¹ No. 176.

No. 215

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received July 17, 10 p.m.)
No. 139 Telegraphic [C 5374/172/62]

BERLIN, July 17, 1931, 8.45 p.m.

My telegram No. 133.¹

I learn from a direct source that German Cabinet considered proposed Austro-German Customs Union at a meeting yesterday evening. Herr Treviranus, on whom I had been working during the day, strongly advocated that project be dropped, and was supported on economic grounds by majority of his colleagues.

(Repeated to Paris.)

¹ No. 210.

No. 216

Sir R. Vansittart to Lord Tyrrell (Paris)
No. 208 Telegraphic: by bag [C 5367/172/62]

FOREIGN OFFICE, July 17, 1931

Following to Secretary of State from Chancellor of the Exchequer:—

Following explanation of my difficulties about credits to Germany may be useful:—

In the view of all our financial authorities the present crisis in Germany is due to lack of confidence, both abroad and at home, as to the possibility of Germany being able to maintain her economic and financial stability so long as her reparation liabilities are insisted upon. This being the case, no schemes for granting financial assistance to Germany, whether in the form of short or long-term loans could be effective, as they would at the best merely relieve the situation temporarily and leave the fundamental defects unsolved, with the result that a further crisis would inevitably break out sooner or later.

For more than five years Germany has been borrowing abroad in order to pay reparations, and I understand that there is no prospect of getting any further credits from the market here or in America unless some long-term settlement of debts and reparations on a rational economic basis can be reached. The same objection would apply to any proposal for Government Guaranteed Loan. Apart from other difficulties, it would be quite impossible to get public opinion to accept such a proposal if the money was to be devoted in any form to paying reparations, which would go mainly to France.

No. 217

Sir H. Rumbold (Berlin) to Lord Tyrrell (Paris) (Received July 18, 2.0 p.m.)
No. 141¹ Telegraphic [C 5402/172/62]

BERLIN, July 18, 1931

Following for Secretary of State:—

My impression in conversations with Chancellor and other Germans is that there is real appreciation of, and gratitude for, valuable assistance recently afforded by His Majesty's Government to Germany. I acted on this impression last night to say to the Chancellor at the station that I earnestly hoped that he would make his contribution towards easing the difficult situation he might find ahead of him. I gathered from good sources that Germans do not expect to accomplish much in Paris, but are pinning their faith on a favourable outcome of London Conference, for which they will reserve all their efforts. German Ministers are accompanied this time by Herr von Bülow, Secretary of State, whom I suspect of Nationalist tendency.

¹ This telegram was addressed to Paris and repeated to the Foreign Office as No. 141.

No. 218

Sir R. Vansittart to Lord Tyrrell (Paris)
No. 210 Telegraphic [C 5332/172/62]

FOREIGN OFFICE, July 18, 1931

Following from Prime Minister to Secretary of State:—

Berlin telegram No. 133¹ repeated to you of July 16: Interview between Chancellor and Sir Horace Rumbold over German assurances.

It is possible that you may be able to turn to some account in to-day's conversations Dr. Brüning's statement, especially in regard to the authoritative statement suggested by Sir Horace Rumbold in last sentence.

(Repeated to Berlin, No. 163.)

¹ No. 210.

Notes¹ of a Conversation held at the Ministry for the Interior, Place Beauveau, Paris, on July 19, 1931, at 10 a.m. (Received in Foreign Office, July 20)

[C 5416/172/62]

Present: *France*: MM. Laval, Briand, Flandin, Piétri, François Poncet, Cathala, Berthelot, Coulondre.

Great Britain: Mr. Henderson, Lord Tyrrell, Sir Walford Selby, Mr. Wigram.

United States of America: Mr. Stimson, Mr. Mellon, Mr. Edge, Mr. Pell.

Germany: Dr. Brüning, Dr. Curtius, Herr von Hoesch, Herr von Bülow, Count Schwerin von Krosigk, M. Schmidt.

Italy: Signor Grandi, Count Manzoni, M. Rocca.

Belgium: M. Hymans, M. Francqui, Baron Gaiffier d'Hestroy, M. Langenhöver.

Japan: Japanese Ambassador in Paris.

Interpreter: M. Mathieu.

M. Laval explained what had passed at the previous meetings and, in particular, at the Franco-German conversation held on the preceding evening. The object of these meetings had been to try to find means of participation in the financial aid for Germany, necessitated by the economic and financial crisis. No proposal had yet been formulated by any Government though everyone had recognised that it was necessary to do something.

M. Laval said that France was in a special position *vis-à-vis* Germany. Yet she had agreed that, like other Powers, she must help Germany. The dangers of the situation were serious and those dangers might become worse if no help was forthcoming. The French Cabinet had considered that nothing could be done or discussed without a frank and precise explanation between the French Ministers and the German Chancellor and Minister for Foreign Affairs. This explanation took place on the preceding afternoon and would continue later in the day. France could not participate in financial help for Germany without taking certain precautions. Both sides understood and had explained one another's difficulties. But the discussion was not yet complete, and that afternoon the German delegation would have to give their views on the suggestions which the French had put forward.

M. Laval said that before going to London it would be necessary for the French Government to know what would be discussed there. He understood that it would only be the question of financial aid to Germany and not other matters. He had informed Mr. Stimson that this would be the sole object of the conference, and the German Ministers had agreed to that. In these circumstances the French delegation would go to London. Their position there would be determined by the Franco-German interview which would take place later in the day. No formal proposal respecting help for Germany had

¹ These notes were made by the British representatives for the use of His Majesty's Government.

yet been made, but it seemed that the only way of getting the money required would be by means of a loan, either short or long term. The bankers who lent on short-term conditions would presumably ask for reimbursement by means of a long-term loan in which France would participate, though under certain guarantees. He would now ask Dr. Brüning to explain the actual German situation.

Dr. Brüning said that he would explain the situation in Germany. The economic and financial situation there was based on short-term credits, amounting last year, and all coming from abroad, to 7 or 8 milliard marks. The economic and financial situation of a country, when based on short-term credits, was very different from the situation of other countries. Normally, the Central Banks held gold and foreign exchange cover for the note issue, and if Germany had 4 milliard marks of notes in circulation she must have 2 milliard of marks gold and foreign exchange cover. This cover was largely in the form of short-term credits, and since last summer there had been a steady withdrawal of these credits. Germany had lost in eight months her 2 milliard marks of cover for her notes in circulation, and it was impossible to reconstruct the economy of the country under these conditions. That was only possible if the balance of payments was not unfavourable. In these circumstances the German Government had been trying to reform the situation by a system of rapid deflation, for it was necessary for the Reichsbank to reduce the notes in circulation. The German Government had encountered great difficulties in this policy; and the situation had become worse after the failure of the Creditanstalt in Austria and the difficulties which certain Dutch banks had recently experienced. Now Germany was in a situation where her budget was stabilised, but where the short-term credits, which were the basis of the German note issue, had been withdrawn. This was in large part the explanation of the financial crisis.

Dr. Brüning said that the first thought of the German Government had been to do all it possibly could itself to remedy the situation. It had given guarantees to the Darmstädter Bank, which had suffered most severely. It had issued decrees to stop the flight of capital. It had forbidden foreign exchange dealings save by the Reichsbank. Everyone was obliged to tell the Reichsbank how much foreign currency he had. For several days all internal bank payment had been suspended. On the 17th July the note circulation had been increased a little, and to-day a new decree would authorise a further increase. All this had been done to avoid the creation of a situation which would be most dangerous for the whole of Europe. For if the German Government had to declare a moratorium for external payments, the difficulties would spread to the rest of Europe within a few days. The situation in Europe would then become so grave that it would be difficult to remedy it. The Germans had done what they could themselves to stop the withdrawal of short-term credits and the flight of capital. The remedy to the situation must now be found abroad and, even if a foreign loan was obtained, the short-term credits would have to be increased as well and not withdrawn. The short-term credits must be maintained and must to a certain extent

replace the milliards of foreign capital which had been lost. It was a matter of putting in order the whole economic life of Germany.

M. Laval said that the Chancellor had explained the situation. It was interesting to recall that the Governors of the Central Banks and the representatives of the banks at the recent meeting of the Bank of International Settlements had all said that they were powerless to solve the situation and had referred it to the Governments. M. Laval had explained in what form France could intervene. It was now for the other Governments to say how they regarded the situation. Naturally, no decision could be reached here.

Mr. Stimson said that the position of the United States Government was best illustrated by the recent action of President Hoover. The United States Government had felt that the basic element of the situation was lack of confidence and that its basic remedy was re-establishment of confidence. The recent action of President Hoover was based on that assumption, and Mr. Stimson considered the results of that action had shown the correctness of the American diagnosis. Mr. Stimson looked on the present discussions in this light and he congratulated M. Laval on having brought all these statesmen together and also on the good effect already produced by the German visit to Paris. These events would go far to re-establish the essential basis of confidence. Mr. Stimson said that he had followed the recent discussions with great interest and attention. He had noticed the tentative suggestions made by the French Ministers. He saw in certain of these suggestions insuperable difficulties for the United States Government. Nevertheless, the latter would review them with care and attention. It must be remembered that when there was a tub with a hole in it out of which all the water was running, it was no use pouring in more water until the hole was stopped up. So in this situation, which was characterised by the flight of credits from Germany. It was not only necessary to think of new loans, but to consider how the flight could be stopped. The United States Government was giving its attention very earnestly to this aspect of the problem and it was considering what could be done to stabilise the remaining German credits. Mr. Stimson hoped that a London Conference would discuss the technical problems with which it would be faced in the spirit of the recent action of the President of the United States and of the French invitation to the German delegates to come to Paris. He was sure that this in itself would help to restore confidence.

Mr. Henderson desired to associate himself with what had been said by Mr. Stimson, and he offered his congratulations and expressed great gratification at the opening of conversations between the French and German Ministers. Whatever plan might ultimately be adopted to give assistance to Germany, he was convinced that the foundation on which to build must be Franco-German understanding. He hoped that the conversations of yesterday and of that day would be not an end but a beginning in those friendly relations between the two countries which were indispensable for the economic recovery so much desired. As regards the position of the British Government in this matter he had no idea when he came to Paris that he would pass through the hectic days and nights which he had known since Tuesday last,

the 14th July. The British Government had already given evidence of its desire and, indeed, determination to help the German Government. The Prime Minister and he had fully appreciated the difficult situation of Germany, at least since the visit of the German Ministers to Chequers. Neither Mr. MacDonald nor he had ever lost their sense of the realities of the situation. That was why both of them had desired the Berlin visit, and why the British Government wanted to show its sympathy with the German Government and with the German people.

It was difficult for him at the moment to express any opinion regarding any concrete proposal to help. He had not come to Paris with any mandate or any instructions. He had naturally communicated with his Government, but he was not fully informed as to their attitude. He would leave for London that afternoon and see the Prime Minister the same evening; and there would be a Cabinet meeting on the 20th July when the British Government would face the questions to be considered in formal conference at 6 p.m. on the 20th July. If there could be some tentative understanding between the German and French Ministers, that would be a substantial contribution for the success of the London Conference. The British Government would attend that conference with an open mind and ready to consider any proposal that might be communicated as a result of the joint conversations of the last two days.

Mr. Henderson added that he was in complete agreement with the suggestion that the London Conference should be confined to an examination of the financial situation in Germany.

M. Grandi said that these preliminary discussions were most important for the work which would fall to the London Conference. The Italian Government had taken note with much pleasure of the Franco-German conversations. He was sure of interpreting the sentiments both of the Italian Government and people in expressing the hope that those conversations would lead to a concrete result. The Italian Government had no definite proposal to make, but it would be ready to examine any solution or proposal which would remedy the situation and lead to peace and tranquillity in Europe.

The Japanese Ambassador was grateful for the invitation extended to him to attend this conversation. Japan was separate from Europe, but she followed with interest the development of the European situation. He congratulated all the statesmen assembled on the efforts which they were making to solve the economic difficulties, which were world wide.

M. Hymans said that these friendly meetings gave hope for the success of the London Conference. In view of the critical situation of Germany, Belgium was disposed to co-operate in giving financial aid so far as that might be possible for her.

M. Laval said that the German Chancellor had explained the reasons for the German crisis. The general adoption of the Hoover proposal had disposed of the difficulties of the German budgetary situation. Dr. Brüning's remarks had shown that the Reichsbank needed a credit of 2 milliard marks and that Germany needed a consolidation of her short-term credits. What was the matter with Germany was now well known, but M. Laval thought that they

ought to try to ascertain if there were not other methods of dealing with the crisis than those mentioned by Dr. Brüning. For instance, the German Government might consider certain further measures of economy, certain restrictions, another financial policy. But these questions could be considered in London, where it could also be ascertained what Powers were disposed to make new credits to Germany.

M. Laval reminded the meeting of the feeling in France at the time the Hoover proposal was first made. France did not like to see her reparations suspended for a year, and now she was being asked also to lend money to Germany. It was not surprising that in these conditions French public opinion obliged the French Government to take great precautions. M. Laval pointed out that, despite the delicacy of its situation, the French Government had not hesitated to make a definite and precise proposal, and it was the only Government which had made such a proposal up to the moment.

M. Laval thanked Mr. Henderson for the precaution he had taken to define the agenda of the London Conference. It would be dangerous and unnecessary to go, at London, into questions other than those raised by the German request. He desired to state again that France could only be present at the conference and could only bind herself there in matters raised by the German request for financial help.

The present exchange of views showed the desire of all the Governments to come to the help of Germany and to prevent an extension of a crisis which could be of such a dangerous nature. The German crisis was the result of lack of confidence and lack of security. There was a need for political appeasement. He had discussed this question with the German Ministers, not that he had any intention of trying to settle for ever Franco-German relations by these conversations. But they had marked before the world a desire for a frank and loyal co-operation between these two countries. What was wanted was a pledge that Europe could from now on work in peace.

M. Briand called attention to the practical side of these discussions and of the conference at London. The discussions which had already taken place, and in particular the Franco-German conversations, would certainly produce a moral effect. The very presence of the German Ministers at Paris would react on the opinion of the two countries. This was not a negligible fact, but it was not enough. Suppose that, despite the psychological nature of these discussions and of the conference in London, it proved impossible to raise the financial aid required for Germany, would Germany be able to face the resulting situation or would she still be in danger of a catastrophe? He would like to have Dr. Brüning's opinion on this point.

Dr. Brüning said that he had already made a statement on the economic situation of Germany. He now desired to thank the foreign statesmen assembled for the speeches which they had made expressing a desire to help Germany. M. Briand had just put the very grave question as to what would happen to Germany if, despite the desire of the London Conference to help her, it was physically impossible to produce the aid required. The German Government had for the last fifteen months done all it could to settle the

present crisis by internal measures. Wages of officials and workmen had been reduced. He said this because the French Minister of Finance and M. Laval himself had spoken of the possibility of new economies within Germany. That might be possible one day, but it was not possible for the present. Germany had made too many economies in too short a time, and it was well known that a too speedy deflation reduced the power of consumption, and this in its turn reacted on other countries. Was it possible to force the German nation to make further sacrifices without dangerous political reactions? He did not wish to use graver words, but it was possible to imagine what would happen and come out of Germany if Europe did not help Germany, who had paid her debts and reparations, and who six years after the cessation of inflation had found her fortune again diminished.

Dr. Brüning said that he did not wish to fix the figure of the aid required. He would only repeat what Dr. Luther had already said, that any aid given must be adequate. The credit of 100 million dollars given two weeks ago had had a bad effect, as foreign bankers had realised the small extent of Germany's reserves and had hastened to withdraw their money. A way must be found to deal with the situation, otherwise it would have grave consequences, not only for Germany but for the other neighbouring countries.

M. Briand thanked Dr. Brüning for this explanation, and said that the Chancellor had not concealed the fact that if financial aid was not forthcoming the situation would again become menacing. The delegates to the London Conference must measure their responsibilities accordingly.

M. Laval said that no one disputed the gravity of the situation as explained by Dr. Brüning. What was disputable was the nature of the guarantees and the use of any aid given and precautions for the repayment and service of the loan in order that the banks might be able to raise it and that the public might be prepared to subscribe to it. These matters must be considered in London, and M. Flandin would explain what the French Government thought was possible and what was the limit to which it could go to help. It could not go beyond that limit because it would not be followed. Without wishing to take any particular credit for the fact, M. Laval again remarked that France was the only Power which had put forward a concrete suggestion for help.

No. 220

Mr. A. Henderson to His Majesty's Representatives at Paris, Berlin, Rome, Washington, and Brussels
*Telegraphic*¹ [C 5550/172/62]

FOREIGN OFFICE, *July 21, 1931*

Conference of Ministers opened in London in a cordial atmosphere yesterday evening under presidency of Prime Minister.² First meeting was purely

¹ No. 211 to Paris; No. 165 to Berlin; No. 213 to Rome; No. 553 to Washington; No. 48 to Brussels.

² The stenographic reports of the meetings of the Conference are printed as Appendix I to this volume.

introductory, both French and German Ministers referring in general terms of appreciation to the preliminary conversations in Paris and reaffirming their desire for collaboration and confidence between the two countries.

At second meeting this morning it was generally agreed that, as a preliminary and essential step towards relieving the situation in Germany, it was of urgent importance to come to some concerted arrangement, through the medium of the central banks, whereby the withdrawal of further foreign credits from Germany should be arrested. A committee composed of the respective Finance Ministers, with Dr. Brüning representing Germany and with Prime Minister as chairman, was appointed to examine more fully on the basis indicated the question of financial measures required to remedy the situation. This committee is meeting this afternoon and will report to the full conference to-morrow morning.

No. 221

*Notes of a Conversation¹ between Mr. A. Henderson and Dr. Curtius on
July 21, 1931
[C 5691/172/62]*

Dr. Curtius referred to the question of the return visit to Berlin. He said that Dr. Brüning and himself were very anxious to see the Prime Minister and Mr. Henderson in Berlin as soon as possible. He hoped very much that they might be able to come at the end of this week, but if not, he hoped it would be possible the following week. He said that they also had to bear in mind Mr. Stimson's plans. The arrangement had been that he should visit Berlin to-day, but that had been postponed owing to the summoning of the Conference in London. He regarded our visit as most important. There were many questions which he wished to discuss, such as disarmament, but he intended to postpone their discussion until the Berlin visit took place.

It was his intention, Dr. Curtius said, to give Mr. Henderson a short memorandum in regard to the pocket battleship.² Mr. Henderson said that in addition to the memorandum on the subject of the pocket battleship he would be very glad to be furnished with a note from Dr. Curtius showing exactly the point which had been reached in the discussions in Paris. It was evident that a situation had been reached when Chancellor Brüning and Dr. Curtius felt they could not comply with the French demands and he would like to know the issues on which the conversations had come to an end. Mr. Henderson said that as soon as he knew what the difference was between the French and German positions, it would be possible to consider what action he could take. In his opinion it was necessary to issue some declaration which would have the effect of restoring confidence throughout Europe.

¹ This conversation took place at the Foreign Office. Sir R. Vansittart, Sir W. Selby, Herr von Bülow, and Dr. Schmidt (interpreter) were also present.

² There appears to be no record in the Foreign Office archives of the receipt either of this memorandum or of the note referred to in the next sentence.

The declaration should be so worded that all could sign with the exception, of course, of America, although it might be indicated that America had been present. After signature in London the declaration could be left open for other Powers to sign.

Herr Curtius said that it was the Chancellor's intention to communicate a memorandum showing the position which had been reached in the discussion between the French and Germans but he would be quite willing to discuss the political situation at the present moment.

Sir R. Vansittart emphasised the fact that, from the conversation which had taken place on the previous evening, the idea of a loan would clearly have to be abandoned. So far there was in the field no other tangible suggestion for tiding over the difficulty. The Prime Minister had fallen back on the idea of some declaration which would have that effect for a year and it was impossible to do this on the basis of some anodyne pronouncement by the experts. These facts must be faced and they strengthened the case for such declaration as was suggested.

Mr. Henderson said that if a loan was not possible, it was essential to create confidence by some other means; it was possible that the financiers might find some formula.

Dr. Curtius said that a financial solution was essential if confidence was to be restored in Germany; no declaration would be any good without; it must be possible to show the German public that a new start had been given to Germany. The French had submitted to them a declaration which neither Chancellor Brüning nor he had felt able to accept. Dr. Curtius suggested that the British and American experts might try their hand at a draft as the Prime Minister had emphasised the importance of the Germans and the British working in close conjunction. If a declaration could be found which would meet the British and German points of view, that declaration could, after agreement, be submitted to the other Powers with a view to their acceptance. But Dr. Curtius emphasised once again that practical steps towards finding a solution of the financial difficulties were also indispensable. Dr. Curtius then referred to the question of visits. He attached, as he had already said, great importance to our visit and there was also the question of the return visit by the French. He did not know when this could take place, but if all went well he indicated he thought it might be arranged some time in October.

Sir R. Vansittart reminded Dr. Curtius that at dinner the night before the Chancellor of the Exchequer had said that he was unable to offer any suggestion which would be of striking assistance. He presumed that Dr. Curtius would not wish the Conference to end with a result which, unless strengthened, would universally be represented as, at the least, jejune on the financial side.

Dr. Curtius repeated that if no financial solution were found, Germany would break down; fresh credits were essential. With regard to disarmament he said that preliminary discussions with us and afterwards with others with a view to finding a basis of action at the Conference were essential in advance of the Conference; otherwise the Germans would not be able to see their way

to attend. In this connexion Dr. Curtius said that the Powers of Europe should continue their co-operation until America could see her way to take on wider responsibilities than she was at present disposed to do.

Mr. Henderson said that the British and German Delegates should concert together with a view to seeing whether they had any suggestions to put forward as regards a declaration, but the first step seemed to him to be to diagnose the position and that could only be done after he had been informed by the promised German memorandum of the stage which the discussions had reached in Paris. He must know, said Mr. Henderson, how far the Germans had shown their minds to the French, otherwise it was impossible for him to see if any draft was negotiable.

Dr. Curtius said that the German Government could not agree to the idea of a declaration involving a political moratorium, since that was impossible in the present state of German opinion. The formula which had been presented to them by the French in Paris would have excluded the calling into operation of Articles 18¹ and 19 of the Covenant during the period of the moratorium. It was impossible for the German Government to suggest to the German people a postponement of the exercise of the rights which they enjoyed under the Peace Treaties. In this connexion Dr. Curtius referred to the question of the Eastern frontiers. They had always insisted that they could not agree to conclude an Eastern Locarno in regard to that question by reason of the rights which they held under the Treaties. That was not to say that the German Government within the next few years had any intention of raising this debatable issue, as their hands were full with other matters, but they could not tie those hands, and that was the reason why they would feel compelled to reject the idea of a moratorium on the lines seemingly desired by the French.

Mr. Henderson said that he hoped that Dr. Curtius would not close his mind to the possibility of getting some formula which would apply not only to Germany, but to other countries as well. Dr. Curtius has said that the German Government had no intention of raising the question of the revision of the Treaties as their hands were full with other questions relating to the reorganisation and internal economy of Germany. Why could not a formula be found to express this? For so long as the suspicion existed that these issues would be precipitated, so long would the present state of unrest continue. Mr. Henderson said that the idea which he had had was a declaration which would have a period of duration of about five years.

Dr. Curtius said that he had had the idea of a consultative pact in virtue of which the Powers would meet at regular intervals. It was most important to maintain these contacts, but as regards a declaration, Dr. Curtius said he could accept no formula which might involve a renunciation of the rights which Germany enjoyed under the Peace Treaties.

Mr. Henderson said that they always had to bear in mind the question of press agitation. It was perfectly true that in many respects we were all equally guilty; we used the press on occasion, but sometimes the press acted without

¹ This number may be an error.

inspiration, to the detriment of relations between the peoples. Mr. Henderson said he would consider some form of declaration which would provide for periodical meetings and the development of more contacts in the future. Something must be done to prevent that particular form of agitation in particular countries which unquestionably was doing so much to unsettle the present position. As regards the abandonment of the rights under the Peace Treaties, Mr. Henderson said that he had never suggested abandonment, but that certain issues should be left in abeyance during a certain period.

Herr von Bülow intervened to say that to leave in abeyance would amount to the same thing and that German public opinion would never tolerate any form of words which might even suggest that German rights were to be left in abeyance.

Mr. Henderson replied that that was quite an impossible position to take up for it amounted to nothing else than an attitude of fiddling while Rome was burning.

Dr. Curtius said that he and Chancellor Brüning had done their best to fight against their own public opinion. There was no statesman in Germany less afraid than Dr. Brüning, but Dr. Brüning and he both knew that they had reached the limit beyond which they could not go in the restrictions which they were imposing upon Germany.

Sir R. Vansittart said that if the present conditions were allowed to continue the only result would be two antagonistic choruses leading to a situation which must end civilisation.

Mr. Henderson said that he would await the memorandum which Dr. Curtius had promised as regards the points which the discussions in Paris had reached. As soon as he received that memorandum, he would get to work and see what he could evolve in the way of a declaration.

Sir R. Vansittart concluded by remarking that if the loan went, some such declaration would be all the more essential.

July 21, 1931

The conversation between Mr. Henderson and Dr. Curtius was continued at 6 o'clock at the House of Commons. Very much the same ground was traversed as in the morning, the result being that the Germans made it clear that they did not think that they were in a position, having regard to the state of their public opinion, to make any concession towards the elaboration of a formula which would give satisfaction to the French. Mr. Henderson pointed out that the suggestions which he had made were directed solely towards easing the position, but he feared that the attitude of the German representatives did not help in any way to solving the problem with which they were confronted.

Dr. Curtius undertook to report what Mr. Henderson had said to the Chancellor and to consider Mr. Henderson's suggestions in the light of any decision which might be reached as the result of the deliberations of the Financial Committee.

July 22, 1931

*Mr. A. Henderson to His Majesty's Representatives at Paris, Brussels,
Berlin, Rome, and Washington*
*Telegraphic*¹ [C 5648/172/62]

FOREIGN OFFICE, *July 23, 1931*

My telegram No. 211 (48) (165) (213) (553).²

The Committee of Finance Ministers which met on July 21 elaborated as the result of prolonged discussion a draft declaration to be issued by the conference on the subject of the measures which might be taken to relieve immediate situation by restoring confidence in Germany's economic stability and thereby preventing the continued withdrawal of foreign credits. This draft was submitted to the plenary conference at its meeting on 22nd July, and after considerable debate was referred back to the Finance Ministers' Committee. After four hours' arduous negotiation, that committee succeeded in agreeing on the text of the declaration which, after the introduction of certain small amendments, was unanimously approved by the plenary conference this morning and subsequently given to the press, where you will no doubt have seen it. A paragraph was added by the conference authorising the continuation by the Experts' Committee of the work of considering and recommending measures necessary to give effect to Hoover proposal for suspension of inter-governmental payments.³

Copies of verbatim reports of all meetings of conference and of declaration follow by bag.

A telegram has been despatched by Prime Minister, as president of the conference, to Bank of International Settlements, drawing latter's attention to those parts of declaration which concern the Bank of International Settlements.

German Government intend to invite small committee of financial experts of international repute to proceed Berlin immediately to advise Reichsbank on financial matters. This fact is not referred to in conference declaration.

¹ No. 212 to Paris; No. 49 to Brussels; No. 167 to Berlin; No. 214 to Rome; No. 558 to Washington.

² No. 220.

³ This committee reported on August 11, 1931, and agreed upon a number of protocols and other documents for giving effect to the Hoover proposal. The report was published as Cmd. 3947.

*Mr. MacDonald to President, Bank for International Settlements,
Basle*

Telegraphic: En clair [C 5648/172/62]

FOREIGN OFFICE, *July 23, 1931*

As president of the International Conference that has just terminated, I have signed, and am forwarding at once, the following letter:—

'I have the honour to inform you that the International Conference,

composed of representatives of the Governments of the United States of America, Belgium, France, Germany, Italy, Japan and the United Kingdom of Great Britain and Northern Ireland, which met at London from Monday, 20th July, to Thursday, 23rd July, adopted a declaration, of which certified copies in the French and English languages are enclosed.

‘As president of the conference, I have the honour to draw your attention to those parts of the declaration which concern the Bank for International Settlements.’

The English version of the declaration, which is also being transmitted by post in the French language, is as follows:—

‘The recent excessive withdrawals of capital from Germany have created an acute financial crisis. These withdrawals have been caused by a lack of confidence, which is not justified by the economic and budgetary situation of the country.

‘In order to ensure the maintenance of the financial stability of Germany, which is essential in the interests of the whole world, the Governments represented at the conference are ready to co-operate, so far as lies within their power, to restore confidence.

‘The Governments represented at the conference are ready to recommend for the consideration of the financial institutions in their respective countries the following proposals for relieving the immediate situation:—

- ‘(1) That the central bank credit of 100 million dollars recently granted to the Reichsbank under the auspices of the Bank for International Settlements be renewed at maturity for a period of three months.
- ‘(2) That concerted measures should be taken by the financial institutions in the different countries with a view to maintaining the volume of the credits they have already extended to Germany.

‘The conference recommend that the Bank for International Settlements should be invited to set up without delay a committee of representatives nominated by the governors of the central banks interested to enquire into the immediate further credit needs of Germany and to study the possibilities of converting a portion of the short-term credits into long-term credits.

‘The conference noted with interest a communication from Dr. Brüning relative to the joint guarantee recently placed by German industry at the disposal of the Gold Discount Bank. The conference are of the opinion that a guarantee of this description should make it possible to provide a sound basis for the resumption of the normal operations of international credit.

‘The conference consider that, if these measures are carried through, they will form a basis for more permanent action to follow.—J. RAMSAY MACDONALD, *President of the Conference.*’

No. 224

Mr. A. Henderson to His Majesty's Representatives at Paris, Brussels, Rome, Berlin, Washington, and Tokyo
*Telegraphic*¹ [C 5692/172/62]

FOREIGN OFFICE, July 24, 1931

My telegram No. 213 (51) (215) (168) (559) (95).²

The Prime Minister has now received from the President of the Bank of International Settlements the following letter in reply to that addressed to him in which attention was drawn to those parts of the declaration approved by the conference which concerned the Bank of International Settlements:—

'I have the honour to acknowledge your telegram dated 6.15 p.m., 23rd July, and I have taken due note of those parts of the declaration of the conference which you transmit and which concern the Bank of International Settlements. The Bank of International Settlements, on its part, is proceeding without any delay to examine the best and most expeditious methods of giving effect to those recommendations of the conference which fall within its power and sphere of action. I observe that the official English and French texts of the declaration are now *en route* to Basle by post.'

¹ No. 217 to Paris; No. 52 to Brussels; No. 216 to Rome; No. 169 to Berlin; No. 560 to Washington; No. 96 to Tokyo.

² Not printed. This telegram reported the action taken by Mr. MacDonald in No. 223.

No. 225

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received July 27)

No. 549 [C 5704/9/18]

BERLIN, July 24, 1931

Sir,

The despatches and telegrams which Mr. Newton and which more recently I have sent will have kept you informed as to the progress of events in Germany and the various steps taken by the Government to maintain control over the situation. In this despatch I will endeavour to give a more general picture of the state of feeling in Germany.

2. The suspension of payments by the Darmstädter Bank on Monday, the 13th July, took the general public by surprise and seriously shook their confidence. The run on the banks which followed was only checked by the Government decree closing all the banks except the Reichsbank for the two following days. On the 15th July the Reichsbank increased the discount rate to 10 per cent. and decided to allow its note cover to fall below 40 per cent. The next day the banks reopened, but, as withdrawals were limited to essential wage payments, &c., ordinary business has only since been carried on with increasing difficulty. On the 17th July the press published an outline of the French conditions for financial help. These conditions were unanimously declared to be beyond the pale of discussion, but they aroused great

bitterness and served to add to the general feeling of helplessness. By the 17th July the fear of a new inflation was very strong and it expressed itself in a temporary burst of buying of anything and everything, and notably, the statisticians report, of an astonishing number of beds.

3. On my return to Berlin on the 16th July, I was much struck by the emptiness of the streets and the unnatural silence hanging over the city, and particularly by an atmosphere of extreme tension similar in many respects to that which I observed in Berlin in the critical days immediately preceding the war. There was, however, an essential difference: it was not this time a tension which seemed likely to find expression in action. The predominant note was and still is a mixture of almost oriental lethargy and fatalism. The German people have learnt long since to take hard knocks calmly, but it seems that they have also grown so accustomed to borrowing abroad that their first instinct now is to rely upon help from abroad and to wait patiently while the preliminaries are being discussed. Though consumed with anxiety, the people seemed content to fold their hands and wait for the Paris discussions and the London Conference to save them. Should help from abroad fail to materialise, it is obvious to the public that the outlook will be serious and that the Government may be forced against their will to take measures which may bring about all sorts of disagreeable results and possibly even a recurrence of inflation. It is particularly this fear of inflation which explains the docility with which the whole country has hitherto blindly accepted Government measures and decrees which have brought business practically to a standstill, have interfered with liberty to travel, practically destroyed the freedom of the press and have set up a sort of inquisition into people's private affairs. It is hoped that these measures will serve as a stopgap until help can be obtained and above all that they will help to stave off inflation. Confidence, meanwhile, in Dr. Brüning is still unimpaired. It is felt that he at all events is determined to grapple with the problem, that he knows what is in his mind and what he is doing, and that he is not likely to make political concessions in a moment of panic or to gain a temporary respite from his difficulties.

4. While there is much criticism of financial and industrial leaders, their excessive salaries and extravagant methods, there is also a very general feeling that the present crisis, if successfully overcome, must be the last of its kind and that Germany must not in future accept international commitments which she cannot fulfil. For the moment, though the political parties have not actually declared a truce, warfare is suspended and Hugenberg and Hitler are contenting themselves with pointing out without fear of contradiction that they have been right all along, that the Young plan was impossible of fulfilment and that everything they have foretold, including internal bankruptcy, has come to pass. In such circumstances Dr. Schacht's financial reputation has revived and he has reappeared on the stage. He has attended decisive Cabinet meetings, and, while criticism of Dr. Luther tends to increase, there are small but widening circles which feel that Dr. Schacht, if only he could overcome his unpopularity abroad and especially in the U.S.A.

and with the Social Democrats at home, might yet be the man to save Germany.

5. The last-minute postponement of your and the Prime Minister's visit at first caused some disappointment and no little anxiety in official circles lest it should be felt in England that the German Government were responsible for or desired the postponement. The German Government were caught between two fires. They could not flout French opinion and were conscious of the French manœuvres to force the holding of the conference in Paris, but they showed their consideration for English opinion by changing their plans at the last moment and sending all their important experts direct to London instead of with the Chancellor to Paris.

6. Dr. Brüning's visit to Paris went off better than the parties of the Right expected. Neither he nor Dr. Curtius made any of the political concessions which Nationalist circles apprehended, and even the idea of a political moratorium, which seemed to suspend Germany's rights as a member of the League of Nations, came to nothing in spite of the gloomy prophecies of the extremists. On the other hand, the absence of any positive result in Paris had undoubtedly a depressing effect not merely in financial circles, but also in those reasonable circles which hoped that a direct exchange of views between French and German leaders might at last initiate the establishment of relations between France and Germany which would alter the whole future of Europe.

7. The telegram which the self-styled 'National Opposition' of the Nationalists and Nazis addressed to the Chancellor on the 21st July on his arrival in London aroused little interest here. It was regarded as a purely theatrical gesture on the part of Hitler and Hugenberg, who are anxious at the moment to create the impression that there is such a thing as a strong Right Opposition capable of working together and of undertaking the government of the country.

8. The results of the London Conference have now confirmed the view already generally accepted here that the French Government are not prepared to co-operate with the other Powers in a concerted movement to aid Germany financially except in return for political concessions such as no sovereign country even under duress could make. A programme of political capitulation following on the disastrous events of the last fortnight would certainly shake the Brüning Government, and it is doubtful whether promises given to placate French opinion could be honoured by succeeding Governments. The German public have been following the French press very carefully and have not failed to note with satisfaction the complaints of the 'ECHO de Paris' that the Anglo-Saxon countries are preventing France from exploiting Germany's financial and economic distress. Even those circles which continue to entertain hopes of an eventual rapprochement with France show no inclination at the moment to make any of the concessions which appear to be the necessary preconditions for any such rapprochement. Indeed, resentment against France has now become general, and it has not been mitigated by the publication of the French note on disarmament nor by the speech delivered last Sunday by M. Maginot.

9. The London Conference has also clearly indicated that, in order to restore confidence, Germany must first help herself. This will undoubtedly stimulate to greater activities a group of 'economic nationalists' which includes two Cabinet Ministers, Herrn Treviranus and Schiele, and which believes that Germany should be made as independent of the world and as self-sufficing as possible.

10. Reports from His Majesty's consular officers throughout Germany show that the calm and orderliness of Berlin are reflected in the country. As in Berlin, wage payments were successfully made last week though to-day may prove more difficult. There have been minor disturbances, chiefly in the Ruhr, but no rioting of a serious nature. It is worth mentioning that a large Communist meeting planned to take place recently in Hamburg proved to be a fiasco. There, Mr. Shepherd points out, the position is considered to be too serious for indulging in communism, and the tendency of business men to lean towards the National Socialists has, if anything, increased.

I have, &c.

HORACE RUMBOLD

No. 226

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received July 27)

No. 552 [C 5705/9/18]

BERLIN, July 24, 1931

Sir,

I have the honour to transmit herewith a memorandum by the financial adviser to this Embassy regarding the events during the second week (the 17th to 24th July) of the German financial crash.

2. Mr. Rowe-Dutton gives in connected form an account of the various decrees, regulations, &c., of which translations or abstracts have already been transmitted to you, and makes some analysis of the German attempts to help themselves out of their present difficulties in the absence of immediate further financial assistance from abroad.

I have, &c.

HORACE RUMBOLD

ENCLOSURE IN NO. 226

The German Financial Crash: Second Week, July 17-24, 1931

The present memorandum attempts to record the events of the present week and to give in connected form the various decrees, &c., of which translations or abstracts have been sent home separately. In a semi-official memorandum sent to Sir F. W. Leith-Ross last week I made a short sketch of the events of the week ending the 17th July. The position then was that, after the closing of the Danat Bank on the 13th July and the accompanying run on the banks and savings banks on that day, a complete bank holiday had been declared for two days, followed by a partial bank holiday for the

succeeding three days, arrangements being made to ensure the payment of wages due on Friday, the 17th July. This wage-payment seems to have been successfully met, and there were practically no reports of difficulties.

The problem then was, how the banks should reopen on Monday, the 20th July. A stop-gap solution was adopted, obviously in the hope that some practical results would emerge from the Conference of Ministers at Paris and London which would effectively ease the situation. Accordingly, regulations were issued over the week-end providing that for the four days, the 20th to 23rd July, the banks should open under very severe restrictions indeed as to the transactions they should carry out. Withdrawals in cash were permitted only up to 100 reichsmarks (savings banks, 20 reichsmarks), with a maximum of 5 per cent. [of] the customer's credit balance. Transfers by cheque were limited to 2,000 reichsmarks except under the special clearing procedure described below.

The full amount required for the payment of wages may, however, again be drawn out in cash on production of some form of proof of the amount of wages to be paid.

The measures taken for the following period (the 24th to 28th July) are described in a later paragraph.

The internal effect of these measures is, naturally, to throttle most forms of economic activity; they amounted in effect to the declaration of a moratorium, and bills of exchange payable on dates covered by the restriction of banking business were held to be prolonged accordingly. Not until the 22nd July was it permitted to make payments not exceeding 3,000 reichsmarks per day to meet maturing bills of exchange. Nevertheless, the situation was made worse by the announcement of two further banking failures, both involving institutions of some magnitude. The Schröder failure in Bremen appears to have been due to withdrawals of foreign reimbursement credits, while that of the Landes Bank der Rheinprovinz seems principally due to the assets of the bank being frozen in advances to municipalities. The latter case is peculiarly unfortunate, as the Landes Bank der Rheinprovinz acted as a clearing bank for the savings banks of the Rhineland, and a substitute has had to be hastily improvised.

So serious is the paralysis of internal finance that two hasty measures have had to be devised to assist the situation. The bigger banks have united to form a clearing association which, on the strength of a very limited mutual guarantee of possible losses, provides for a system of clearing on credit between the banks, on the strength of which transfers between banks by cheque up to a daily limit of 15,000 reichsmarks per customer is permitted. It is obvious that this can do but little to remedy the present standstill. The second measure is the legal authorisation of a system of guarantee of cheques, also under very considerable restrictions. (Both these steps are described in separate memoranda.¹)

As regards the external liabilities of Germany on private account, the situation is in great confusion. It is obvious that sums due in Germany to a

¹ Not printed.

foreigner (*e.g.*, in respect of current accounts with German banks, bills of exchange, &c.) are covered by the restriction of banking business. It is not so clear what effects the Government regulations have on sums payable on German account abroad. Certain German financial houses, especially the private banking firms, have not sought to avail themselves of the restrictions, and have done their best to meet all liabilities maturing, presumably either by drawing upon foreign balances to their account, or by utilising their accounts with the Reichsbank for the purchase of foreign exchange. Other banks have, however, taken the view that their foreign liabilities are also covered by the banking restrictions, and for some days there was no attempt at arriving at any unity of action.

I now (the 22nd July) learn privately that the Reichsbank is bringing pressure to bear on all banks *not* to meet their foreign liabilities to any extent beyond that permitted by the restrictions.

The economic effects of the steps taken and their probable results in the immediate future lie outside the scope of this memorandum. For the present purpose it seems sufficient to record that the banking restrictions must obviously make it extremely difficult for firms to collect sums due to them, so that their bank balances must be getting extremely small. Severe difficulties may, therefore, arise in the immediate future, both in paying wages and in paying for necessary raw materials. Unless special steps are taken without delay, the tendency must be for such cash as is available to accumulate in the hands of the distributing trades, leaving the producers and manufacturers in great difficulties.

During the week a number of emergency decrees were issued attempting piecemeal alleviations of the situation. In the Coinage Law of the 30th August, 1924, passed under the Dawes plan, the circulation of subsidiary silver and bronze coinage was limited to 20 reichsmarks per head of the population. This has now been raised to 30 reichsmarks per head, so that approximately 600 million reichsmarks more subsidiary coinage can be issued, if the public can be got to take it. This is distinctly doubtful, as during the last year or so saturation point seems to have been reached, with a circulation of approximately 1,000 million reichsmarks. Silver coin is not legal tender in payment of amounts exceeding 20 reichsmarks.

The Government of the Reich is taking sharp measures to secure its own position as far as possible. Savage penalties in the shape of interest at the rate of 120 per cent. per annum are imposed upon taxpayers who are late in the payment of their taxes. At the other end, power has been taken to pay monthly salaries in future as to one-half at the usual date and the remainder ten days later.

A minor step which is causing great inconvenience is the charge of 100 reichsmarks for a visa on the passport of any German going abroad. It seems doubtful whether the protection which this will afford to the German exchange by reducing amounts spent abroad by Germans will be worth the ill-feeling which this step will cause in the countries principally visited by German tourists, *e.g.*, Austria, Switzerland and Italy.

Perhaps the most important steps taken, in deference apparently to foreign opinion, are two decrees centralising all transactions in foreign exchange on the Reichsbank and compelling the surrender to the Reichsbank of foreign currency and balances held abroad.

The decree centralising foreign exchange transactions on the Reichsbank provides that no foreign exchange, whether in the form of currency or claims to receive currency, may be bought or sold except at the Reichsbank or institutions licensed by it. Licences have, in fact, been granted to banks and registered money-changers as well as (for limited amounts) to railway station exchange offices, while hotels, &c., may exchange broken amounts. In all cases sums of foreign exchange received have to be paid over to the Reichsbank.

The decree regarding the flight of capital is complicated by linking together provisions regarding the surrender of foreign exchange to the Reichsbank, tax evasion, and a tax amnesty. Briefly, all persons liable to the property tax ('Vermögensteuer'), which seems a widely-embracing definition, are liable to be called upon to offer to the Reichsbank all foreign exchange or claims payable by them in foreign currency. They are compelled under severe penalties to make a similar declaration to the taxation authorities. Finally, an amnesty in respect of sums due in the past for certain specified taxes is declared if property or income hitherto concealed is declared to the taxation authorities before the 31st July.

It is important to point out that the decree applies only to foreign currency and foreign exchange giving practically an immediate claim to receive foreign currency. Securities purchased before the 13th July, 1931, are specifically excluded from the decree, as are foreign claims not realisable within three months. The only securities covered by the decree are those purchased after the 12th July against payment in foreign currencies. It is obvious that this opens up a very wide gap indeed in the possible efficacy of the decree, since those who have exported capital in recent years, and especially during the last few months, are scarcely likely to have left it lying idle in the form of currency or bank deposits, but will normally have sought some form or other of investment which escapes the provisions of the decree. Against this it may be argued that the present would be an unfortunate moment for the Reichsbank to choose to throw upon the Stock Exchanges of the world a mass of foreign securities compulsorily purchased from German citizens. Such an argument seems, however, specious. Those who remember the operation of the Dollar Securities Committee in England during the war, whereby foreign securities were purchased from British citizens against payment in sterling, or were taken on deposit with a view to eventual return, can realise how useful it would be for the Reichsbank to become possessed of a large block of foreign securities which might be made to serve as collateral for the basis of a loan to Germany.

Information regarding these holdings of securities may, however, be more completely obtained through the increasingly complete declarations which may result from the taxation amnesty. On the whole question of the efficacy

of these decrees one must await experience. Meanwhile regulations under the decree have been issued calling for a declaration to the Reichsbank of holdings of foreign currency and exchange exceeding 20,000 reichsmarks, and reserving the right to call for declarations regarding lower sums at a later date.

The régime described above was in force up to and including Thursday, the 23rd July. On that date a further decree was issued extending the above régime up to and including Tuesday, the 28th July, with some further relaxations of the restrictions imposed upon banking business. Thus, during the coming four working days cash payments from bank accounts may be made up to 10 per cent. of the balance of an account as on the 24th July, but with a maximum limit of 200 reichsmarks. The amount of cash payment from a savings bank account is increased to 30 reichsmarks. Cheque transfers for banks outside the Clearing Association are increased to 4,000 reichsmarks, with a limit of one-half of the drawer's account, while payments, whether in cash or by cheque transfer, may be made up to 5,000 reichsmarks *per day* in settlement of bills of exchange falling due. It is further understood that cheque transfers as between the banks and the Clearing Association are increased from 15,000 reichsmarks to 50,000 reichsmarks per day.

The above alleviations do something to mitigate the hardships caused to individuals by the banking restrictions, but they are still very far from being sufficient for general industrial purposes.

E. ROWE-DUTTON

No. 227

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received July 27)

No. 553 [C 5706/9/18]

BERLIN, July 24, 1931

Sir,

With reference to Mr. Newton's despatch No. 490¹ of the 9th July, I have the honour to transmit herewith a note by the commercial counsellor on the German economic position on the 24th July, 1931.

2. Mr. Thelwall points out to what an extent present banking restrictions interfere with commercial activity, refers to the pressure which present circumstances will put upon Germany to force out [*sic*] exports and to reduce imports, and foresees that, whatever steps may be taken to restore the position, they are not likely to be enough to enable Germany to maintain her economic apparatus on its present scale, so that a process of constriction will be necessary until a lower and sounder level is reached.

I have, &c.

HORACE RUMBOLD

¹ No. 184.

Note on German Economic Position, July 24, 1931

The effect of the acute financial crisis of the past fortnight on German economic life has not as yet reached a stage when it can be expressed in figures. Unemployment is apparently stationary (3,956,000 on the 15th July), there is no perceptible movement in wages, there has not been a flood of bankruptcies. The business world is struggling with a mass of emergency decrees which hamper its activities on every side and which nobody is able to interpret adequately. There can, however, be no doubt as to the repercussions of the situation. While there has, particularly in the large towns, been an inclination to convert such ready money as was available into goods, either owing to fear of inflation or in view of the difficulty of obtaining ready money for some time to come, commercial activity as a whole has been severely reduced and stocks are piling up. As an illustration of the difficulties which interfere with business, it may be mentioned that payment by certified cheque has led to the banks being swamped, and they are now endeavouring to arrange a clearance on the 27th July of all cheques received up to the 21st July. Savings and similar banks, who are naturally receiving little and are being drawn on to the full extent which the regulations allow, have difficulty in realising their investments, largely mortgage bonds, as the stock exchanges are closed; the same applies to all classes who wish to supplement their ready money supply by the sale of shares. Firms who have declared dividends are afraid to pay them out until the situation has become clearer, and so forth.

Probably the true position will not become evident until a return to normal banking becomes possible. For the time being the bank restrictions, with certain alleviations, have been prolonged until the 28th July. The continuation of the 100-million-dollar credit granted to the Reichsbank and an effective guarantee that foreign balances will not be withdrawn from Germany during a fixed period should make the complete removal of the regulations possible, but a resumption of commercial activity on the old scale will even then be highly improbable, particularly as the control of foreign exchange transactions will have to be maintained for much longer.

Under these circumstances, the purchasing power of the home market must remain low, imports will be reduced to a minimum, and exports will be forced by every possible means. In despatch No. 517¹ of the 17th July it was explained why an immediate large-scale dumping on the part of Germany seemed unlikely, but, in view of the pressure which subsequent developments have put upon Germany, she will deliberately set herself to overcome her disabilities in this respect. It is significant that plans, the exact nature of which has not yet been disclosed, are being discussed in the Cabinet for making Germany as independent as possible of foreign commodities and of foreign help. The moving spirits of the scheme are, apparently, Herr Treviranus, an energetic Minister without portfolio, and Herr Schiele, the Nationalist Minister for Food and Agriculture, who has already achieved a certain

¹ Not printed.

success in this direction, though at heavy cost, in his own particular sphere. The one concrete proposal which has been published is that the accumulated stocks of German coal, which amounted to 11,600,000 metric tons on the 30th June, should be thrown on to the world's markets at cut-throat prices. The moderate elements oppose measures of this kind, which would only lead to reprisals and would offend the very countries to which Germany is looking for help. The political forces behind the movement are, however, too strong to be entirely ignored.

Even though the decisions arrived at in London on the 23rd July and the decree for securing the return of German holdings abroad may enable Germany to avert the worst danger which threatens her at the moment, namely, lack of funds to pay wages, it is probable that she may have to resort to some such step as raising her bank rate still further and printing notes to meet the urgent needs of the country, a proceeding which is being strongly advocated by leading democratic journals. Whatever foreign financial assistance Germany may receive, it is not likely to be enough for the maintenance of her economic apparatus on its present scale; accordingly, widespread capital reductions must be looked for, accompanied by a further fall in wages and at least a temporary rise in unemployment, until a lower, but sounder, level is reached.

A difficult problem which awaits solution is the future of the Darmstädter Bank and of the two other 'D' banks, whose status is by no means above suspicion.

Conditions such as those described above must have a profound effect upon the receipts from taxation, the effects of which on the German budget are still quite impossible to foresee.

No. 228

Record¹ of a Meeting between Mr. MacDonald, Mr. A. Henderson, Dr. Brüning and Dr. Curtius at the Reichskanzlei, Berlin, on July 28, 1931²
[C 5893/2018/18]

...³ Dr. Curtius then referred to the meeting of the Co-ordinating Committee of the Committee of European Union, which had been called, as at present arranged, for the 26th August, and said that he thought it was too early a date. It was impossible that they could remain at Geneva from the 26th August to the 3rd October. He suggested that the meeting of the Co-ordinating Committee should take place on the 29th August, and that that day and the following day, the 30th, should be reserved for the meeting of the Co-ordinating Committee and the early days of the following week be taken up with the meetings of the Council and of the Committee of European Union.

¹ This record was made by the British representatives for the use of His Majesty's Government.

² Sir W. Selby, Mr. N. Butler, Herr Dieckhoff, and Dr. Schmidt were also present.

³ The first part of this record summarized a short and inconclusive conversation on the question of coal and coke exports and of Russian bills of exchange. See No. 231.

If the Prime Minister and Mr. Henderson agreed, he was ready to telegraph to Geneva to suggest postponement of the meeting of the Co-ordinating Committee to the 29th August.

Mr. Henderson said that he was in entire agreement with Dr. Curtius and had already mentioned the point to the Secretary-General.

Dr. Brüning said that in the conversations which had taken place in Paris reference had been made to the constitution of a customs union for the countries of the old Danubian Monarchy. This would be entirely unacceptable from the German point of view. He said that he had talked to Sir Walter Layton on the subject and that Sir Walter Layton had also reviewed the position with Herr Lammers. No such arrangements would assist to alleviate the position unless tariffs were simultaneously reduced, and Dr. Brüning said he was of opinion that in this matter they should proceed according to a definite plan which might be extended, say, over a period of eight years. He thought that the best plan would be that a discussion should take place between the representatives of His Majesty's Government and the German representatives, the essential consideration being that duties must be lowered.

Mr. Henderson observed that in the discussions which had taken place in the Economic Committee at Geneva there had been no agreement on the French scheme.

Mr. MacDonald added that the German representatives and ourselves could discuss the question with a view to endeavouring to discover a common course of action. So far as he had been able to examine Sir Walter Layton's scheme he thought the idea a very good one.

Mr. MacDonald said there was one question of importance which he would like to mention, and it was that of the continued negotiations between France and Germany. He was very anxious to have the view of the German Ministers and he felt sure they would not mind the question being put to them. Did it suit them that these conversations should be continued between the two parties without our intervention, or would they prefer that we should intervene? He would remind them that His Majesty's Government were interested politically and it would not do for a settlement to be reached and that His Majesty's Government should be faced with a *fait accompli*. In this connexion Mr. MacDonald referred to the American-French agreement which had been reached in Paris between M. Laval and Mr. Mellon, which had proved very embarrassing to His Majesty's Government. Mr. MacDonald enquired whether the German Ministers had thought how they would like the conversations to develop. Did they wish to go on together, and at what point did they think that other Powers should be invited to participate?

Dr. Curtius replied that he had not yet been able to discuss this with Dr. Brüning, but his personal view was that the conversations should for the present continue between France and Germany only. There was the idea of inviting the French Ministers to come to Berlin for the purpose of further discussions before the meeting of the Assembly at Geneva in September, but the Rome visit, which must take place first, had also to be taken into consideration. Dr. Curtius said he did not see how any practical solution could

be reached as a result of direct conversations with the French, but he thought it was necessary to show the French that the German Ministers were ready to discuss matters with them directly. He was of opinion that as soon as the discussions had been a little further developed His Majesty's Government should be informed and they could then consider together whether to extend the conversations to other Powers as well. The fact that the German Government had shown themselves to be at the disposal of the French for the purpose of direct talks with them had unquestionably brought an alleviation into the political atmosphere.

Mr. MacDonald said that he had no intention of pressing the point at present, but if the conversations reached a certain point he thought it desirable that His Majesty's Government should be informed.

Mr. Henderson said that he had told Dr. Brüning when at Chequers that, if the German Government would keep them informed of developments in the relations with France, it might be possible for us to make useful suggestions, and then would arise the possibility of enlarging the scope of the discussions.

Dr. Brüning said that it was essential that the British should join in the conversations at a point.

Mr. MacDonald then raised the question how to continue the work which had been begun in London. The experts were now on the spot in Germany, and Mr. MacDonald said that he had at once communicated the documents relating to the London Conference to the Bank for International Settlements and had received a very cordial reply. In a little while it would be possible to see what effect had been produced by the decisions in London in Germany itself, but there was much to be done and it was necessary to take a broad view in regard to the future, since serious problems were involved. There was the question of reparations and war debts. He would tell the German Ministers in confidence that it was his intention to spend a few days with Mr. Stimson in August in Scotland. While there, other American public men would be present, leaders of the Democratic party among them, and he said he proposed to raise informally with them the question as to what would happen at the end of the twelve months' moratorium conceded by President Hoover. If all went well, Mr. MacDonald said that he thought it was expedient that there should be another discussion before the termination of the twelve months under the Hoover moratorium. His Majesty's Government had taken the view that they could not support the French idea of a long credit for the reason that the only effect would be to pile up further commitments for Germany. In two years' time it would only involve a more serious financial crisis than existed at the present moment. There were two difficulties which stood in the way of any reopening of the subjects of war debts and reparations, namely, the attitude of France and America, and, in connexion with the American attitude, the presidential election next year must not be lost sight of.

Dr. Brüning said that the German Government had considered the possibility of something in the nature of a long-term credit based on the security

of public utilities in Germany. If, however, they accepted the loan scheme proposed by the French Government the effect would be that the reparation question would be definitely settled against them. What the German Government really wanted for the time being was help to tide them over the present year.

Mr. MacDonald said that, according to the calculations of His Majesty's Government, the German Government would have to pay in July 1933, if present conditions were perpetuated, something in the region of £10 million more than they would be paying under the normal operation of the Young Plan. That was an intolerable position, which was neither good for Germany nor for Europe.

Dr. Brüning said that the Americans had emphasised the necessity of Germany buying more raw materials, especially cotton, as that would point to the success of President Hoover's initiative, as it was necessary for President Hoover to show his people some result for the action he had taken.

Dr. Brüning said that as soon as he had been able to review the position generally and see more clearly the net effect of the measures which had already been taken, he would very much like to get into communication with His Majesty's Government with a view to co-ordinating further steps in the future with them. They were bound to recognise that the possibility of the reimposition of the Young plan would constitute a great danger for Germany.

Mr. MacDonald made it clear that what he had just said about talking to Mr. Stimson must not be interpreted as anything in the nature of an official approach. The Americans were beginning to see that something had got to be done as they recognised themselves that the Hoover step was not an isolated one, and in this connexion Mr. MacDonald drew attention to an address which had been broadcast by Senator Ritchie in regard to the reaction of war debts on American trade. He regarded this address as of very great importance, as likewise the attitude of Senator Borah who was supporting Mr. Hoover.

Dr. Curtius said that he very much doubted whether the Americans would make any further move without some assurance as regards disarmament. He thought it probable that the American Government might agree to lengthen the period of the Hoover moratorium by one year so as to be able to review the progress which had been made in connexion with the forthcoming disarmament conference next year. The first step, in his opinion, was to discuss the possibility of the extension of the Hoover plan for a period of one more year, as that would give the necessary time for a full consideration of the whole problem. He doubted very much whether the American Government would agree to deal with the question of debts as a whole until after the presidential election. One solution which Dr. Curtius had in view was that a European body, composed of economic experts, should review the whole position in Europe and then inform the American Government that for purely economic reasons the extension of the Hoover plan by one year was essential. The greater the sum the French asked to be paid the clearer it would become that the Germans could not pay.

Mr. Henderson intervened to remark that he feared the French memorandum on disarmament would not conduce to get the Americans to make a further contribution.

Dr. Curtius replied that he had discussed this question with Mr. Stimson, who had said that in the course of the London Conference the French had put forward memorandum after memorandum setting forth their claims, but despite this a result had in the end been reached, and Mr. Stimson thought it would be possible to reach an agreement. Dr. Curtius had replied that the French memorandum had very considerably altered the position and had placed the German Government in a very difficult position. It was the duty of all to consider how best to mobilise public opinion against the memorandum.

Dr. Brüning said that it had not been possible to have any discussion with the French in the course of the recent conversations and it must be admitted the time was not a happy one. He drew attention to the declarations of M. Maginot on the subject and mentioned [that] the French elections were impending. In his opinion the important thing was to tackle the questions relating to trade and the development of the work of the London Conference which had been raised at the beginning of the conversations, as a critical winter lay ahead.

Dr. Curtius said it was the intention of the German representatives to present a memorandum of their ideas as regards disarmament.¹

July 28, 1931

¹ This memorandum on disarmament is printed in Vol. III, Series 2, of this collection, No. 215.

No. 229

Sir H. Rumbold (Berlin) to Sir R. Vansittart (Received August 6)

No. 564 [C 6000/2018/18]

Sir,

BERLIN, *July 28, 1931*

I have the honour to report that the Prime Minister and the Secretary of State attended a banquet given in their honour by the Chancellor on the evening of their arrival, the 27th July.

2. The Chancellor, after welcoming the Prime Minister and Mr. Henderson in cordial terms, went on to speak as follows:—

‘You have come to Germany at an anxious moment. I have had repeated opportunities during recent days of describing to you the position in Germany and the grave problems with which we are at present confronted. Germany is doing her best to master this crisis; at the same time she must count upon the co-operation of the world abroad which brought things to a crisis by withdrawing short-term credits from Germany.

‘We are grateful for what your Government has already done for us by accepting the Hoover Plan cordially and unreservedly, and by bringing about the London Conference and the results of that conference. We know that you in England are also passing through difficult times, partly,

indeed, owing to the present financial crisis in Germany, which has now assumed international dimensions. Consequently, I am convinced that economic conditions in Europe can only be restored by loyal co-operation and reciprocal help on the part of all nations. The foundation-stone for that co-operation has been laid in London, and the work of construction must now commence. Your visit to-day is proof that it is your wish to continue the work so happily begun. May it bring the world real peace. I raise my glass to your Excellencies, to the future happiness of Great Britain, and to Anglo-German friendship.'

3. The Prime Minister, after returning thanks in suitable words, delivered a speech *ex tempore*, of which no English record is available. Re-translated from the German it reads as follows:—

'The Foreign Secretary and I have come to Berlin not merely to return the German visit to Chequers, but to show the world that despite the difficulties of the present situation our confidence in Germany continues unimpaired. Germany is passing through difficult times, and we sympathise deeply with her in her present struggle. We are full of admiration for Germany, and though her difficulties have not yet been surmounted we are firmly convinced that if she continues her efforts, if she mobilises her intellectual, moral and economic strength in order to get on to her feet again, and if she avoids giving way to despair, other countries will come to her help and will not allow the German people to founder. A free and self-respecting Germany is an indispensable link in the community of civilised peoples. No great and self-respecting nation can cease to exist without causing the greatest disaster to the other members of the international community. It would be unthinkable that a country which has achieved so much in the arts, in industry, and in the intellectual domain, a country which in its long and chequered history has given proof of such qualities as Germany has, should be refused help in the hour of distress by other nations.

'The results of the London Conference were not sensational. The question there was of maintaining the position, while preparations could be made for a more thorough treatment of the difficulties. The agreements reached in London have already been put into execution for the greater part. The examination of the German financial position has begun. The advisers suggested by the London Conference are already here in Berlin to give their financial advice, and in this way the machinery has been set in motion. But the most important thing is that the nations represented at the London Conference were able to agree to co-operate in helping Germany. It is not sufficient if each country merely utilises its financial strength for its own purposes. All financial resources must be used to strengthen the web of national and international civilisation. And in this connexion the fundamental causes of the present crisis must, sooner or later, be looked straight in the face, and brought to a successful solution with the aid of sound common sense and goodwill. Above all things the feeling of confidence between

nation and nation must be restored. Every country has much to contribute in that respect, and I would like to express the hope that visits like those to Chequers, to London, and our present visit to Berlin should not be looked upon as isolated facts, but as the expression of a tendency towards better international understanding. Much of importance has happened since the London Conference. First of all I would like to pay a tribute to the help which has been given by France, and I would like to express the hope that the conversations between you and the French statesmen will be continued, with the inclusion of other countries (in those conversations) should that be necessary. The establishment of personal contact is important. We must forget the past, the thoughts and feelings of the young generation must be turned aside from hostility and rancour, and directed towards reciprocal understanding and reciprocal assistance. That is our joint task to avail ourselves of the idealism which is the attribute of the young generation, and see that it is used for the great international tasks of understanding and co-operation between all the peoples of the universe.'

4. On the following day the Prime Minister and the Secretary of State gave a special interview to the British and American press. This was followed immediately by a reception of the German and international press, who attended in great force. In a brief introductory speech to the latter the Prime Minister stated that he had now had an opportunity of seeing on the spot the situation which had developed since the London Conference, and was now more convinced than ever that the great qualities of the German people, which he enumerated, taken in conjunction with the economic and financial strength of the country, would bring them through their present difficulties. It was clear that there were further difficulties which would have to be overcome, but he was convinced that no German would leave his country in the lurch. The German citizen was justifiably proud of his country, and this pride would give him the necessary strength to overcome his difficulties. Once these were overcome the next task would be to tranquillise the international atmosphere, and it was for the purpose of achieving this end that visits between the German, French and British Ministers were being exchanged. In conclusion, the Prime Minister emphasised the pleasure felt by the British people at the friendly reception given to the units of the British fleet which had taken part in the recent visit to Kiel.

5. In reply to questions, the Prime Minister then stated that it was impossible for him to expound the policy of Great Britain in the matter of disarmament in the time at his disposal. Replying to a journalist who enquired whether the withdrawals of gold from the Bank of England were likely to impair the financial stability of the City of London, the Prime Minister scouted the possibility. He rejected the view that the motive behind these withdrawals was political, and after emphasising the great reserves of strength of the Bank of England, he added that the phrase 'as sound as the Bank of England' could be used as confidently as ever. He also drew special attention to the assistance given by that institution to European countries during recent weeks.

6. The Prime Minister, in reply to further questions, stated that the holiday year proposed by Mr. Hoover was an extremely valuable contribution to the solution of existing difficulties. Asked whether Great Britain still adhered to the principle of maintaining the balance of power in Europe, the Prime Minister replied with great emphasis that this principle was diametrically opposed to the policy of his Government which might be summed up in the words 'international co-operation.' Disarmament was, he declared, the mainstay of the policy of international co-operation, whereas the policy of maintaining the balance of power was based on armaments.

7. In response to further enquiries the Prime Minister stated that a greater measure of economic co-operation was urgently needed in Europe. If the present system of tariffs or restrictions on trade remained in force, and if the tendency to extend them were unchecked, the ultimate result would be disastrous. Asked if Great Britain were taking any measures to improve the position, the Secretary of State intervened to say that the British Government had been working for two years at Geneva with a view to establishing economic co-operation between the countries. Great Britain had sent her best experts to Geneva to assist in this work. A report would be forthcoming early in the autumn; much more was being done than people generally realised.

8. A representative of the Nationalist press asked the Prime Minister in so many words whether, in view of his reference to the idealism of German youth at the Chancellor's banquet, he was taking any steps to get into touch with the young members of the Stahlhelm. The Prime Minister replied pointedly that he had not referred to the youth of Germany, but to the youth of all countries. His appeal was to international youth. It would be a tragic and disastrous thing if the young generation should be brought up in a narrow ultra-Nationalist spirit, or in a spirit of enmity and suspicion. This would be the most serious obstacle of all to the reconstruction and pacification of Europe. This dignified rebuke brought forth a burst of spontaneous applause from the assembled journalists, which was repeated when the Prime Minister's remarks were translated into German.

9. Questioned about his attitude towards the revision of the treaties, the Prime Minister referred his hearers to his statements on that subject in the speech which he delivered two years ago to the Reichstag. The British Government, he added in conclusion, had not deviated from the principles which he had then laid down, and it would continue to be actuated by the same ideals.

10. The remarks made by the Prime Minister and the Secretary of State were, as reported in my despatch No. 556¹ of the 28th July, with one minor exception reproduced very accurately and well in the afternoon press in Germany, and the interview undoubtedly was very successful and made an excellent impression.

I have, &c.

HORACE RUMBOLD

¹ Not printed.

Sir H. Rumbold (Berlin) to Sir R. Vansittart (Received August 6)
No. 569 [C 6003/2018/18]

BERLIN, July 29, 1931

Sir,

I have the honour to supply you with the following summary of the events attendant upon the visit to Berlin of the Prime Minister and Secretary of State for Foreign Affairs, who are now on their way back to London. The Secretary of State, accompanied by Sir Walford Selby, travelled by the Nord Express, and arrived on the morning of Monday, the 27th, at the Friedrichstrasse Station, where he was greeted by Dr. Curtius, Herr von Bülow and other members of the Ministry for Foreign Affairs, including the heads of the Anglo-American Department (Herr Dieckhoff and Baron Plessen), and Herr von Below, who was attached to the British guests throughout their stay. I also was present on the platform with the whole of my staff. Detachments of Reichsbanner men were drawn up on the platform and by the station entrance and cheered Mr. Henderson heartily. Before entering his car the Secretary of State, at Dr. Curtius's request, broadcast a short message in which he expressed the hope that his visit would have the result of drawing yet closer the excellent relations already subsisting between the British and German Governments.

2. Mr. Henderson then drove straight to the Kaiserhof Hotel, where the German Government had arranged for him and the Prime Minister to occupy a suite of rooms on the third floor, commanding a fine view of the Wilhelm Platz, with the Government buildings beyond. It had been explained that Mr. Henderson's visit should be regarded as unofficial until the Prime Minister's arrival, but at 1.30 o'clock he attended a private lunch given in his honour by the Minister for Foreign Affairs. Mr. Henderson, whom I had taken to Potsdam in the morning, rested during the afternoon, and at 5.18 joined the Chancellor and Dr. Curtius at the station to welcome the Prime Minister. I was again present at the Friedrichstrasse Station with my staff, and among the distinguished Germans who were there, the new Oberbürgermeister, Dr. Sahm, a man of gigantic stature, was conspicuous.

3. The arrival was not so well organised as that of Mr. Henderson in the morning, as the space which should have been reserved for those taking part in the official welcome was invaded by surging crowds of sightseers. It was, therefore, impossible to carry out any introductions, and it was only with difficulty that a way could be made through the crowd for the Prime Minister, who was accompanied by Mr. Butler. Any inadequacy of the 'service d'ordre' was amply made up for, however, by the enthusiasm of the welcome given to the Prime Minister. Hearty cheers and shouts of 'Heil! MacDonald!' accompanied him to the exit, and when he emerged into the square outside the station, the large crowds assembled there to greet him burst into loud applause, while Reichsbanner groups led repeated chants of welcome. It is said, indeed, and I can well believe it, that no foreign statesman has ever received such a

welcome in Berlin. Before entering his car, Mr. MacDonald followed the Secretary of State's example and broadcast a short message of goodwill to the German people.

4. At 8 o'clock the two Ministers were entertained to dinner at the Chancellor's Palace. You have already been supplied with a text of the speeches delivered on this occasion by Dr. Brüning and Mr. MacDonald, whose warm references to the great qualities of the German race, and whose expressions of confidence in the future of this country made the happiest impression, both on his immediate audience and on the general public. The company included all the Ministers of the Reich, the former Chancellor, Dr. Cuno, the Nuncio, the higher officials, and numerous prominent German bankers and industrialists. After dinner the British guests attended a reception by the Anglo-German Society at the Kaiserhof Hotel.

5. On the 28th July, the second day of the visit, the Prime Minister and Secretary of State took part in an informal conference which was held at 9.30 a.m. in the Chancellor's garden. These conversations, Sir Walford Selby's record¹ of which is already in your possession, lasted two hours. At 11.30 a.m. I accompanied Mr. MacDonald and Mr. Henderson to the President's Palace, where they were received in an audience lasting half an hour. The President greeted the guests with much cordiality, but the conversation was confined to generalities. At 12 o'clock the Prime Minister and the Secretary of State received representatives of the British and American press, at 12.30, of the German and foreign press. (See my despatch No. 564² of the 28th July.) The British Ministers next participated in a luncheon given in their honour by the Prussian Prime Minister, Dr. Braun. The other guests were almost exclusively members of the Social-Democratic party, and included Dr. Severing, former Minister of the Interior, and Herren Wels and Breitscheid. The latter two Deputies came from Vienna, where they were attending the International Socialist Congress, especially to greet the leader of the British Labour party.

6. A motor-boat excursion in the afternoon was arranged for 4 o'clock, those participating, in addition to the Prime Minister's party, being the Chancellor, who acted as host, Dr. Curtius, Dr. Braun and Herr Treviranus and myself. The journey to the landing stage at Pichelsdorf was made by motor, Dr. Brüning taking Mr. MacDonald in his car, while Dr. Curtius escorted Mr. Henderson. I drove with Dr. Braun, and am reporting the conversation which I had with him on this occasion in a subsequent despatch (No. 566³ of the 30th July). At Pichelsdorf we embarked on a motor launch and made a two hours' tour of the chain of lakes which stretches from there to Potsdam, and which were looking their best in the fine summer weather.

7. The Prime Minister and Mr. Henderson dined at the Embassy at 8 o'clock. Among those whom I had invited to meet them were the Chan-

¹ No. 228.

² No. 229.

³ Not printed. This conversation dealt mainly with the internal political position in Prussia.

cellor, Dr. Curtius, Dr. Wirth, Herr Treviranus, General Groener, Herr von Bülow, Herr von Kardorff (Vice-President of the Reichstag), Dr. Hilferding, the Social-Democratic Deputies, Dr. Breitscheid and Dr. Wels, and other prominent Germans. Among the ladies was Frau Stresemann, who came especially from Württemberg in order to be present, and who realised that my intention in inviting her had been to pay a special tribute to the memory of her husband. The Secretary of State, unfortunately, had to leave immediately after dinner in order to catch the Nord Express. He was seen off at the station by Dr. Curtius, from whom he parted in the friendliest manner, as also by members of the Ministry for Foreign Affairs and of the Embassy staff.

8. To the reception following the dinner I had invited such Ministers of the Reich as had not been present at dinner; the heads of missions and some other foreign diplomats, the leading officials of the Ministry for Foreign Affairs and 'Reichskanzlei', prominent personalities in the military, naval, banking and industrial world, representatives of the British and German press, and some forty members of the British colony. The German Ministers had to leave at a comparatively early hour in order to attend a Cabinet meeting. The Prime Minister, however, remained till midnight, conversing earnestly and indefatigably with the guests whom I introduced to him.

9. I was present with the Chancellor, Dr. Curtius, and numerous others at the departure of the Prime Minister from Tempelhof this morning. On our arrival we found the three machines which had arrived from England on the previous day drawn up ready for the start. It was a windy day, but Mr. MacDonald appeared none the less to anticipate his flight with pleasure. While donning his flying suit he had a final conversation with Dr. Brüning, from whom he parted with great cordiality. He then mounted his 'Fairey' machine; Mr. Butler mounted his; the three planes taxied to the end of the aerodrome and took off all together, flying abreast in close and perfect formation. It was an impressive ending to a visit which, if it achieved nothing dramatic, at least awakened a notable response in Germany, and for that reason alone must be considered to have been very successful.

10. I might add that, although Germany is allowed no Air Force, neither I nor the members of my staff detected any signs of bitterness over the arrival of the three Fairey III F. bombers of the British Royal Air Force on German soil. The authorities spared no pains to be helpful, and in aviation circles great interest was shown in the machines and admiration was expressed at the manner in which they were handled and the accuracy with which Flight Lieutenant Heslop was able to calculate the time of his arrival.

I have, &c.

HORACE RUMBOLD

Letter from Mr. A. Henderson to M. Briand

[C 5897/2018/18]

July 30, 1931

My dear Briand,

The first and may I say pleasant duty which I feel it incumbent upon me to discharge upon my return from Berlin is to give you a brief account of the visit of the Prime Minister and myself to the German capital.

Firstly let me tell you that I was very favourably impressed by the friendly character of our reception by all classes of the community, and I am convinced that the position of Dr. Brüning has been strengthened by the visit to Paris and the London Conference. Our visit was, I think, opportune, and if it can be followed, as I hope it may at no distant date, by a visit by you and Monsieur Laval I feel that added confidence will be given to the present German leaders to persist in the efforts they are unquestionably making to meet and solve the problems with which they are confronted. In this connection I should like to tell you that I think you are assured of a most friendly welcome as the reception which Chancellor Brüning and Dr. Curtius received in Paris and the friendly contacts in London have made a marked impression on the two German Ministers, and have contributed to relieve the tension which has been so unfortunate a feature of the past few months.

As to the still serious character of the situation in Germany there can be little room for doubt. The emergency measures to which the Chancellor has felt compelled to resort have unquestionably resulted in grave embarrassment to the whole economic life of Germany, and it is not yet possible to say whether the situation can be so adjusted as to enable a stable balance to be restored. The reports which I received while in Berlin from our Embassy gave a vivid picture of the difficulties which are being encountered, and corroborate the doubts which must prevail for a little time to come as to the efficacy and practicability of the remedies which have been and are being applied by Chancellor Brüning.

Now you will doubtless wish to hear from me some account of what passed between the Prime Minister and myself and the German Ministers in the course of our visit.

The conversations were confined to three main questions: a review of the decisions of the London Conference, the general trade position with particular reference to the Hours Convention in the Mining Industry, and the German position in relation to the coming meeting of the Disarmament Conference.

As regards the first of these questions there was a general interchange of views without commitment of either side, as regards the situation in Germany and any further measures which it might be necessary to take. The Chancellor seemed to be generally more hopeful as to the immediate position, although it was obvious to us that serious difficulties still lay ahead. For myself I am convinced that the situation requires continued careful observation and that

we must maintain the contacts we have established, since we must not run the risk of again letting the situation get out of control. As to the best means of achieving this I think we might profit by our meeting at Geneva for the purpose of further reviewing the position between two or three of us.

The discussion on trade was limited to the questions of the exports of coke, coal and Russian bills of exchange. As regards the first of these questions it was agreed that an investigation should be undertaken with a view to ascertaining whether some agreement could not be reached among the parties interested to prevent unfair competition. Generally speaking the German Ministers seemed to be impressed, as we are, by the necessity of co-operation in the economic field if cutthroat competition is to be avoided to the detriment of all. As regards Russian bills of exchange Dr. Brüning drew attention to the present chaotic international position in the matter of the discounting of these bills, and expressed himself strongly in favour of steps being taken with a view to some agreement being reached between France, Germany, Poland, Italy, Czechoslovakia and ourselves.

I think you are sufficiently aware of the interpretation placed by Germany on our disarmament obligations under the Treaty of Versailles and that it is unnecessary for me to recapitulate the arguments used by Germany to support that interpretation. It suffices to say that the German Ministers emphasised the fact that should the Disarmament Conference not be productive of results, the reaction on the internal situation in Germany may be serious. Beyond this our discussions did not go.

Such is the brief review of the questions which arose in the course of our conversations in Berlin.

I left Berlin with two impressions: (1) that nothing but good had resulted from our recent collaboration, and that a new spirit of hopefulness had begun to operate; (2) that notwithstanding the hardships which the German people are experiencing there is a steady and, I believe, an increasing amount of support behind the Brüning Government in the efforts which that Government is making to handle a very serious situation.

In the meantime I look forward with pleasure to our meeting at Geneva. I hope that your visit to London did not prove an undue strain.

I must not close this letter without asking you to convey my best regards to M. Laval. His *démenti* of the harmful story which was put in circulation by one of our newspapers in regard to our conversations in Paris came very opportunely, and I appreciate his action. Such indiscretions can only do incalculable harm.

Believe me, &c.,

ARTHUR HENDERSON

I am also informing our mutual friend Grandi of what passed in Berlin.

CHAPTER IV

Report of the Basle Committee: German political and economic situation: decision of His Majesty's Government to suspend the Gold Standard Act of 1925: visit of MM. Laval and Briand to Berlin: visit of the Marquess of Reading to Paris: reconstruction of Dr. Brüning's Cabinet: German 'National Opposition' meeting at Bad Harzburg. (August 1—October 14, 1931)

No. 232

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received August 6)
No. 586 [C 6035/9/18]

BERLIN, August 4, 1931

Sir,

I have the honour to transmit herewith a memorandum made by the commercial counsellor concerning a conversation which he had on the 3rd August with the head of the Economic Section in the Ministry for Foreign Affairs.

2. Dr. Ritter was still somewhat worried over the progress being made over the prolongation of the short-term credits in Germany, but thought a six months' settlement would enable banking internally to run smoothly again. During the six months' grace some scheme for dealing with the short-term credits would have to be evolved.

3. Dr. Ritter's views, recorded in paragraph 4 of the enclosure, regarding the possibility of relaxing the restrictions on foreign currency transactions, are of interest, as are the views expressed in paragraph 6 regarding the question of the dumping of coal.

I have, &c.

(For the Ambassador),
ARTHUR YENCKEN

ENCLOSURE IN NO. 232

Memorandum respecting a Conversation with Dr. Ritter

Yesterday evening, the 3rd August, I had a conversation with Dr. Ritter with a view to getting his opinions on the situation in general.

1. As regards the return on Wednesday to normal internal banking, he

seemed confident that there would be no serious run, and that the day would pass without undue difficulty.

2. He is still somewhat worried about the prolongation of the short-term foreign credits in Germany. He said that matters were on the whole progressing favourably, but that many varied interests in different countries had to be brought in, which took time and continually raised fresh problems. He admitted that everybody manifested goodwill, and that the trouble was chiefly connected with firms who were not strong enough to be able to wait for the money. He was astonished to find that even countries like Czechoslovakia had comparatively large sums outstanding in Germany, and surmised that the money really came from France. If the prolongation were, however, settled for six months for the bulk of the credits, Dr. Ritter considered that, internally, banking would shortly be running smoothly again. He was absolutely against a long-term loan at present, and regarded the prolongation as by far the most appropriate and most valuable solution. He was well aware that, during the six months' grace, some scheme for dealing with the short-term foreign credits finally would have to be evolved.

3. If the plans for prolongation should unexpectedly fail, a moratorium would have to be declared in respect of foreign payments. This would mean that not only the payment of existing foreign debts would be deferred, but that the financing of German foreign trade by bills drawn on London and elsewhere would cease. The Germans would have to pay cash for their foreign purchases and demand cash for their sales abroad, with the result that both types of business would shrink to ridiculous proportions.

4. The decree for the control of transactions in foreign currency had, as a precaution, been drawn up on the assumption that a prolongation of the short-term foreign credits would prove impossible, so that the necessary control could be exercised in case of need. But if the negotiations were successful, the present restrictions would be soon relaxed.

5. Dr. Ritter expressed the view that the German Government realised both banks and savings banks ought to have been subjected to closer control in the past. It had been discovered that no less than 4,000 million marks of the savings banks deposits had been repayable at one day's notice, so that a scare among the depositors could at any time have led to a disastrous situation. The restrictions now imposed on withdrawals from savings banks were, therefore, not merely a temporary emergency measure, but the beginning of a new régime. Similarly, the foreign borrowings of the other banks would have to be supervised and the distribution of the former among the banks regulated. He envisaged the appointment of a bank commissioner for this purpose. Probably steps of a like nature would have to be taken with regard to certain industrial and commercial activities.

6. While Dr. Ritter shared the general view that a high bank rate was an incentive to export, he agreed that, except coal, there were no stocks of importance in Germany, and that, in the case of newly-manufactured goods, expensive money drove prices up. He expressed the opinion that employers would endeavour to counterbalance this by lowering wages still further. Dr.

Ritter mentioned, incidentally, that Mr. MacDonald was much impressed when Dr. Brüning informed him that, owing to the necessity of exporting in order to meet reparation payments, wages in Germany had been decreased by 25 per cent. between 1928 and the end of 1930, as Mr. MacDonald realised the effect that this must ultimately have on wages in England. Whether the mine owners would dump Germany's present stocks of coal on the world's markets was a matter entirely for them to decide; the Government had no influence on it. The former would presumably work out whether it was more profitable for them to keep the coal and lose interest on the capital represented, or to get rid of it at such prices as it would fetch. Naturally, the higher interest rates rose in Germany, the more likely were the owners to sell.

7. When I mentioned that I was apprehensive as to the result of the plebiscite in Prussia on the 9th August, Dr. Ritter laughed, and said that nobody was worrying about that in Germany. He had not thought about it himself until his attention had been drawn to it by articles in the French press. He did not think that a sufficient majority would be obtained to force a dissolution of the Prussian Diet, but, even if this happened, and even if it were followed by large National-Socialist and Nationalist gains at the polls, the situation was much too serious for this to be allowed to interfere with the policy of the Reich Government or with its present composition. The Reichstag had been sent home for eight months, and it would be even easier to get rid of the Diet for an equally long period, while the Prussian Cabinet would remain as it is.

8. Dr. Ritter said that, in principle, the Germans were favourably disposed towards the American offer to finance certain necessary imports into Germany from the United States of America, but, as usual, immense difficulties were encountered as soon as the details were approached. In the case of cotton, for instance, such questions arose as to who should be the purchaser—the Reich or the industry or the brokers—what method should be adopted for fixing the price, as in this business present purchases were always covered by speculation in futures, &c.

F. THELWALL,
Commercial Counsellor

BERLIN, *August 4, 1931*

No. 233

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received August 7)

No. 588 [C 6045/11/18]

BERLIN, *August 5, 1931*

Sir,

In my despatch No. 566¹ of the 30th July I reported the view expressed to me by Dr. Braun, the Prime Minister of Prussia, that the referendum concerning the dissolution of the Prussian Landtag, which is to take place on the 9th August, would not be successful. Since that date both the People's party

¹ Not printed. See No. 230, note 2.

and the Christian Socialists have issued manifestos supporting the referendum. The decision of the People's party was made following upon a meeting between the party leader, Herr Dingeldey, and Hitler, which attracted considerable attention in the press. Various members of the Economic party are also known to be in favour of it, though that party is at present rent by selfish anxieties and internal dissensions.

2. On the other hand, there has been more than one indication that the Nationalists and Nazis would be glad if the referendum could be dropped in return for concessions. It has not transpired what form these concessions might have taken. Perhaps they were never even formulated. According to a report in the press, notably in the 'Deutsche Allgemeine Zeitung', the opponents of the present Government in Prussia would have been satisfied with an understanding that the Landtag would be dissolved in October or November. Another report which was mentioned to a member of the Embassy was that it would be a sufficient sop if the Social Democrat Dr. Braun was replaced by a member of the Centre party as Prime Minister of Prussia. It has, however, recently been evident that the Nazis are anxious to show respectability and capacity to enter the Government, and they particularly dislike being associated with the Communists as disturbers of confidence. Meanwhile an extremist, and probably not very numerous, section of the Communist party itself has raised objection on principle to being associated with the Nazis and with *bourgeois* elements in the referendum.

3. There is, of course, the danger that even if those who started the ball rolling now wish to control its momentum they may no longer be able to do so. In official circles, however, the matter is not being taken too tragically. It is apparently considered that, even if the referendum were successful and at elections following a dissolution the Communists and Nazis made large gains, the present Government in Prussia would remain in power for the time being, and that, if necessary, the Landtag could be adjourned for several months just as the Reichstag has been. . .¹

¹ The remainder of this despatch summarized German press comments on the referendum.

No. 234

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received August 17)

No. 626 [C 6383/11/18]

BERLIN, August 14, 1931

Sir,

With reference to my despatch No. 621¹ of the 14th August, I have the honour to report that recriminations are now being exchanged between the parties which supported the referendum, each party accusing the other of failure to mobilise at full strength on the polling day.

2. In my despatch No. 100² of the 6th February I reported that the

¹ Not printed. This despatch reported the failure of the referendum.

² Not printed.

Nationalist and National Socialist parties were not anxious at the time to associate themselves with the referendum movement initiated by the Stahlhelm. Although they changed their minds subsequently and instructed their followers to take part in the referendum, it is to be doubted whether the responsible leaders, when the time came, were really anxious that the referendum should succeed. The sudden financial crisis and the resultant situation altered the entire political basis on which the acquiescence of the Right leaders originally rested. It must have been obvious to all serious Nationalists that the success of the referendum would precipitate a fresh financial crisis, and I am informed by members of my staff that certain of their Nationalist acquaintances who possessed property or interests of any value in the country, and some more responsible National Socialists, abstained from voting. The Hitlerites and the Nationalists may not have been able to spend large sums of money on the campaign, but they certainly did not do so, and the travelling Hitler circuses, which play so strenuous a rôle at election times, were conspicuous by their absence. Hitler himself only issued his referendum manifesto on the 8th August, when it must have been too late to penetrate into the remote country areas, and his newspapers published the Prussian Government manifesto with a tameness which must have disconcerted the bolder spirits in the party.¹

3. I do not attach any political significance to these recriminations, though it is worthy of note that the Centre press is now prepared to admit more readily than it was before that the defeat of the Prussian Prime Minister Braun really meant the defeat of Brüning, and that the Communist slogan 'Kill the two birds Braun and Brüning with the referendum stone' did, in fact, sum up the position.

4. Hitler's manifesto, to which I referred above, deserves attention, inasmuch as it discloses the 'Nazi' leader's latest method of appeal to the German people. 'Prussians', it begins, 'nearly twelve years have lapsed since the old system broke down. At that time the Social Democrats and Centre assured the German people that a better era, an era of freedom, progress and welfare was dawning. Those ideals were put forward as the moral justification for the revolution. Germany thereupon fell a prey to a democracy of a kind calculated to ruin any and every nation. The German people are now themselves witnesses of the truth of this assertion. The laws of this democracy forbid us to disclose the true state of affairs in this country at the moment. A Constitution, indeed, exists, but the people themselves, throughout the last twelve years, have been hurled from one crisis of distress and misfortune into another. One form of disappointment has followed another. Millions have lost the shillings they saved with so much self-sacrifice. All the promise that our misery was at an end, that trade was on the way to recovery, that unemployment would soon be overcome, that the financial misery of the Reich, the States and the communes would soon come to an end—all these promises have been shown up as irresponsible falsehoods.

¹ The Prussian Government had compelled all newspapers in Prussia to publish their appeal to the electorate.

'Do you remember the Young plan? Do you remember the promises that its signature would bring Germany to better days, that the shortage of money would henceforth cease, that enterprise would find the capital it wanted, that unemployment would be done away with, that taxation could henceforth be reduced, and that out of the savings arising out of the adoption of the Young plan millions could be distributed among the suffering masses?

'Recall all that to mind and then think of the present state of affairs.

'We ask you, were we right? Were we right when we forced a referendum on the Young plan? Were we right with our prophecies then? Or have the parties that championed the signature of the Young plan right on their side?

'Yes! We were right, and the misery which you—our country people—are suffering to-day is the proof of the truth of our warnings and our forecasts. An immense hope has again melted into nothing. A fresh illusion has proved to be an illusion and only one thing has remained—misery—and the political parties responsible for that misery.

'Democracy is driving our people into one misfortune after another. But the political parties flourish; while the German people die, the Centre and Social Democratic parties flourish. So long as these two parties are not overthrown, Germany will not rise anew.

'The position from which Social Democracy controls Germany to-day is Prussia. On Sunday next 90 million Germans in all parts of the world will fix their eyes on you 40 millions of Prussians. Think of 1813 and become the Silesian army of the German nation. Remember the order given on the eve of the battle of Katzbach—"Advance, Prussians, and defeat the enemy."—**ADOLF HITLER.**

5. It is evident from this manifesto that the Hitlerites intend to emphasise the failure of successive Governments to save Germany, and that they regard opposition to the Young plan, and indeed to reparation or 'tribute' payment, as the best political card to play for some time to come. Indeed, since the advent of the financial crisis the National Socialist press has, in fact, redoubled its campaign against the Young plan and against the resumption of tribute payments in any form at a future date.

I have, &c.

(For the Ambassador),

B. C. NEWTON

¹ This should probably read 'fellow-countrymen'.

No. 235

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received August 25)

No. 641 [C 6571/11/18]

BERLIN, August 20, 1931

Sir,

I called on Herr Weismann, the Prussian Secretary of State, to-day in order to get his views about the present political situation in Germany.

2. Herr Weismann said that, in his opinion, the position of the Brüning Government was none too strong. The Chancellor showed no signs of making a change at the Ministry for Foreign Affairs, although it was well known that even Dr. Curtius's own party had no use for that Minister. Some of the weaker Ministers, such as Herr von Guérard, the Minister of Railways, could with advantage be got rid of. Many people had expected that Dr. Brüning would have invited Dr. Luther to retire from his post. Speaking generally, there were no indications that the Chancellor meant to enlarge the basis of his Cabinet.

3. These remarks gave me an opportunity of asking Herr Weismann what truth there was in the reports of a rapprochement between Dr. Brüning and Herr Hugenberg. He replied that these reports were fantastic and must not be believed. Herr Hugenberg would never be taken into the present Government. Turning again to Dr. Brüning, he said that the latter was making a great mistake if he thought that he would be able to send the Reichstag away after a short session in October. Such a proceeding would cause grave dissatisfaction in the country. It was more than likely that the National Socialists would resume their attendance in Parliament. Up to the present the various parties had been able to disclaim all responsibility for any measures of an unpopular character which the Chancellor had been enacting by decree. But the electors would not indefinitely absolve the various parties from responsibility for the conduct of affairs. The Chancellor himself was overworked. According to Herr Weismann, Dr. Brüning had almost come to believe that he was the instrument chosen to lead Germany into smoother waters. The numerous newspaper articles testifying to the excellent impression which he had produced on foreign statesmen in the course of his visits to London, Paris and Rome had increased the Chancellor's belief in his mission.

4. Herr Weismann went on to say that the relations between the Chancellor and the Prussian Prime Minister were not of the best at the present moment. Herr Weismann admitted that the action of the Prussian Government, in making the press publish a manifesto on the eve of the referendum, might have been a mistake, but Dr. Braun had resented the action of the Government of the Reich in altering the press decree of the 17th July at the behest of the referendum parties. Dr. Braun had considered this action as a slap in the face to himself, which was all the more undeserved, in that, by his influence on the Social Democratic party, he had hitherto been of great assistance to Dr. Brüning. He had now said that, so far as he was concerned, the Brüning Government could, in the future, get out of their difficulties as best they might themselves. He, Dr. Braun, had not been to see Dr. Brüning for some time. Herr Weismann admitted that his chief's feeling of mortification might only be temporary, and that he might feel better after he had returned from Hubertusstock, where he was shooting stags. But he would not like to wager that the Brüning Government was certain of remaining in office. Even Dr. Breitscheid had misgivings as to continuing to support the Brüning Government.

5. Herr Weismann concluded by saying that he knew that the Chancellor was somewhat disappointed at the result of the meetings of the two committees at Basel, and especially with the recommendations regarding the mark deposits to the value of £30-35 million standing to the credit of foreign firms in German banks.

I have, &c.

HORACE RUMBOLD

No. 236

Mr. Osborne (Washington) to Mr. A. Henderson (Received August 21)
No. 504 Telegraphic [C 6495/172/62]

WASHINGTON, August 20, 1931

Despite generally admitted soundness of Bankers Committee's report¹ first official reaction is one of discomfort and embarrassment. Recommendation of revision is regarded as unfortunately premature. There is reluctance to discuss report and Acting Secretary of State insists that it is purely unofficial and that United States Government are not directly concerned.

This is comprehensible in view of domestic political situation. Congress has still to endorse the moratorium and their attitude is likely to stiffen if prospect of debt reduction is looming up as a logical development. The unemployment problem and budget deficit will provide powerful arguments against any further American sacrifice on behalf of Europe. It is stated opinion at Capitol is already strongly antagonistic. Wall Street on the other hand endorses the report but realises the difficulty of execution.

Acting Secretary of State whom I saw yesterday morning volunteered personal and unofficial opinion that financial recommendations would seem to be one for Committee contemplated under Young Plan² to deal with and irrelevant political recommendation a matter for League of Nations; these suggestions are in line with to-day's official repudiation of any American responsibility.

¹ The report of the Committee appointed by the Bank for International Settlements on the recommendation of the London Conference. The report, which was signed on August 18, is reprinted as Appendix II to this volume.

² See No. 245.

No. 237

Mr. Osborne (Washington) to Mr. Henderson (Received August 21)
No. 505 [C 6522/172/62]

August 21, 1931

My telegram No. 504.¹

Indirect but apparently inspired press sources define President's present attitude towards debt revision as follows:—

He does not want to state his views publicly at least until Congress meets, particularly as he realises that European developments might cause him to

¹ No. 236.

change his mind. But since reparations and debt payments were calculated on ability to pay any revision would have to be estimated on similar lines and capacity to pay should be estimated on basis of economic normality not on present abnormal conditions. He is not convinced that existing arrangements impose unjustifiable burden in normal conditions, though he has recognized by his moratorium the excessive burden in present conditions. He favours awaiting results of first year's moratorium and if conditions do not improve within that period he might (according to an intimation in 'Baltimore Sun', but not in other papers) be disposed to extend it for another year. Meanwhile he is opposed to any tampering with debt obligations during present economic depression.

Acting Secretary of State has denied that a new Hoover plan for scaling down debts is under consideration, that Mr. Stimson will bring back a plan evolved in discussions with Mr. MacDonald or that the scaling down of debt interest is under consideration.

No. 238

Notes of Conversations between Sir W. Layton and Dr. Brüning on August 22-3, 1931¹

(1) *The Basle Report.* Dr. Brüning was ready to wait and see what action, if any, Mr. MacDonald would take on receiving the report.

He had been advised from the United States not to raise the reparations issue as suggested until after Congress meets. He cannot, however, hold the German situation so long. He is particularly concerned about the situation in East Prussia which he described as 'slowly dying'.

He indicated that he thought it would be extremely difficult to induce Germany to resume paying any reparations at all, but I did not gather that he meant that this was Germany's last word, for he added that it was politically impossible for Germany to go on paying for a considerable number of years. A moderate payment to France for a short period might be possible if associated with steps by France to bring about a real rapprochement.

(2) *The General Situation.* I described to him the difficulty of the British situation and indicated that as part of a general plan of assistance to Europe, after the British situation is stabilised, steps ought to be taken not only in Germany but in other countries that are assisting, along three lines:—

- (a) Political,
- (b) Budgetary,
- (c) Tariff.

As regards (a) Dr. Brüning was very definite that he at all events would not be a party to any arrangement with France which involved a permanent renunciation of right to ask for revision of the eastern frontier. He was also concerned about the armament position. In Paris he suggested to the French that there should be conversations between General Weygand and the

¹ These notes were communicated to the Foreign Office by Sir W. Layton on August 24, 1931.

German General staff, but he was strongly advised not to press the point which would be very impolitic—such conversations could not be kept secret and would suggest many disturbing projects, for example, an alliance against Russia—but he had since received from a very high French source information that if he would undertake not to raise the question of the disparity between French and German armaments no other political condition of any kind would be raised by the French.

He is, however, evidently very afraid of being in a very weak position when the conversations take place, and in particular he does not want to have to make an arrangement on economic matters with the French alone—hence his desire to come to an understanding with England.

(b) As regards the Budget, Dr. Brüning pointed out that he had that day issued a new decree under which the municipalities and states may make reductions on a varying scale in the salaries of employees.

(c) The Tariff is discussed below.

(3) Dr. Brüning told me something of his conversation with Mussolini. He found him very pacific in his outlook, but wondering what General Weygand is doing and why he has been carrying out manœuvres on the old front from Belgium to the Mediterranean. Both he and Brüning are disturbed by the tremendous fortifications which have been developed on the German frontier. Mussolini also complained of manœuvres on the Yugoslavia front. On inquiry Dr. Brüning satisfied himself that Mussolini was exaggerating the scale of both series of operations.

Mussolini takes a pessimistic view of the European outlook, and in particular declares that if after the London conference the Americans withdraw from Europe and do not continue in the discussions which must now take place, there is no hope for Europe at all. He builds a great deal on Mr. Stimson's visit.

Dr. Brüning told him of the conversations we had had regarding tariffs and Mussolini agrees that very radical changes must be made in the trading relations of Europe. He realised that his representative on the Economic Committee had not been very helpful, and as Brüning gave him to understand that I should be in Berlin at the end of the week he sent two Italian experts to Berlin. Unfortunately I went to Berlin later than was expected and they had returned to Italy when I arrived. They had, however, had several conversations with Dr. Lammers and other German experts.

Mussolini is anxious to see a five or six years' plan worked out for a considerable reduction of tariffs, and if possible the establishment of a European Customs Union.

(4) *The Tariff Question.* Dr. Brüning was quite ready to consider steps towards reaching a free trade agreement with Great Britain, but repeatedly said that no arrangement could lead to a satisfactory situation which was not done with the goodwill and concurrence of the French. He was anxious that I should see the French and repeated that if any success is to be obtained it will be necessary to carry the goodwill of Tardieu and Flandin. He was very anxious if I could find time I should go to Rome also.

The question of what constituted free trade was raised, and I said that in view of the difficulty of getting quickly to a free trade arrangement, I had been wondering whether it would be possible to have a somewhat modified agreement under which 'fiscal duties' would be defined so as to include not merely duties on goods that could not be produced at home or on goods having a countervailing excise, but any duties which did not exceed 10 per cent. ad valorem. Dr. Brüning was definitely of opinion that if the conversations went on on this basis Germany would certainly be ready to enter into an agreement with Great Britain on these terms, though he was anxious that if possible some arrangement might be come to between various countries regarding the international trade in coal and in particular some plan which would stabilise the price of coking coal, the dumping of which by Great Britain is giving the French steel industry an immense advantage over Germany.

Dr. Brüning was, however, concerned as to what would happen if the same terms were applied for example to Czechoslovakia, and thought that the admission of other countries ought to be subject to negotiation and certain conditions; for example, he was disturbed by the fact that Czechoslovakia has so much lower social insurance. He had seen M. Thomas the previous day and told him that if instead of worrying about all kinds of schemes of public works, he would get busy and stabilise working conditions with a view to a better equalisation of costs, he would expedite the pacification of Europe. He was also concerned as to what would happen if Poland were admitted, and in particular if agricultural protection had to be reduced [in] European countries to 10 per cent. On the whole Europe is not self-supporting in most cereals, but if Poland is included certain cereals would swamp the German market. He was, however, quite prepared to deal with Poland on the basis of contingents.¹

As regards immediate reduction of duties, asked for by Great Britain as a result of the May meeting,² Dr. Brüning is prepared to agree to all the British demands (the 25 per cent. cut). He does not want to announce the fact without the French being taken into confidence, otherwise it would have too much the appearance of trying to forestall his coming discussion. He therefore proposes that the opportunity should be taken for the seven Powers to talk around the table at Geneva at the forthcoming meeting.

One obvious difficulty is to get consent to allow a fiscal tariff to be admitted as an exception to m.f.n.³ So far as European countries are concerned, the scheme must be part of a plan in which it will be shown that all will have some prospect of benefit—for example, the Eastern states should be allowed emergency agricultural preferences. So far as the United States is concerned Dr. Lammers told me that he had already been in communication with an American friend, through whom he had been in touch with Dr. Julius Klein of the Ministry of Commerce, who had expressed himself as friendly disposed towards a move along the lines suggested.

¹ i.e. quotas (*Kontingente*).

² The reference appears to be to the meeting of the Commission for European Union at Geneva in May, 1931.

³ i.e. most-favoured nation.

In any case Dr. Brüning agreed that if two or three of the greater States of Europe decided that they wished to move in the direction proposed, it would not be possible for there to be effective opposition.

Net Result

1. Dr. Brüning is ready to agree to 25 per cent. cuts proposed by Great Britain—I gathered at once—but thinks those concerned should discuss the matter at Geneva.
2. He is ready to make an arrangement with England now (would like an agreement on coal, but would agree even without that) on fiscal duty basis i.e. 10 per cent. basis, if it can be made an exception to m.f.n. Prepared to consider further step of free trade. Would probably agree on any definition of 'fiscal duties' but is willing to have it understood that on a 10 per cent. basis he would agree in principle now.

No. 239

Sir H. Rumbold (Berlin) to Mr. A. Henderson (Received August 26)

No. 652 [C 6645/172/62]

BERLIN, August 24, 1931

Sir,

In a recent conversation which I had with him Herr von Bülow referred to the Layton Report which he said he had read with satisfaction. Unlike previous reports on Germany's capacity for payment, which bore traces of a compromise between conflicting opinions, the Layton Report must convince the reader that it was an unanimous expression of the opinion of those who had put their signatures to it.

2. Herr von Bülow wondered what the next step would be as the subject matter of the Layton Report had been referred back to the Governments represented on the London Conference.

I have, &c.

HORACE RUMBOLD

No. 240

Sir H. Rumbold (Berlin) to the Marquess of Reading¹ (Received August 28)

No. 175 *Telegraphic* [C 6680/172/62]

BERLIN, August 28, 1931

Your telegram No. 183.²

I read Washington telegrams of August 20 and 21 to Minister for Foreign Affairs to-day. He said that information contained in the telegrams in

¹ The Marquess of Reading succeeded Mr. A. Henderson as Secretary of State for Foreign Affairs on August 26, 1931, after the resignation of the Labour Cabinet and the formation of a 'National Government' by Mr. Ramsay MacDonald.

² Not printed. In this telegram of August 25 Mr. Newton was instructed that he could use telegrams Nos. 504 and 505 to Washington (Nos. 236-7 above) in order to warn the German Government 'not to spoil their own chances by precipitating a discussion of reparations and war debts' before the United States Government were 'ready to co-operate'.

question tallied with that which he had himself received from Washington. He assured me that neither Chancellor nor German Government had any intention of precipitating a discussion of reparations or war debts. He expressed personal opinion however that President Hoover would before long make a further move in direction of declaring a moratorium regarding war debts for 2 or 3 years.

No. 241

Sir H. Rumbold (Berlin) to the Marquess of Reading (Received September 14)
No. 701 [C 7018/11/18]

BERLIN, September 10, 1931

My Lord,

I have the honour to report that a member of my staff had a long conversation on the 8th September with Count Hermann zu Dohna, who had been lunching alone with Herr Treviranus, of whom he is now a follower and close personal friend. I am reporting the substance of this conversation officially as the information comes from one of the Ministers who is on terms of intimacy with the Chancellor, and is also, I believe, *persona grata* with the President.

2. Count Dohna learnt from Herr Treviranus that the Government parties were considering laying a proposal before the Reichstag that President Hindenburg, whose term expires in May next year, should be made President for life. The Social Democrats had declared that they would support such a proposal, or, alternatively, if President Hindenburg should stand again for the presidency, which incidentally I now learn is possible, they would refrain from presenting their own candidate. President Hindenburg, however, Herr Treviranus added, found it distasteful to be obliged to rely upon Social Democratic support, and had asked that Herr Hugenberg and the National Socialists should be consulted as to their attitude. Hugenberg, it appears, when consulted, declared that his attitude would depend upon what the National Socialists would do. The National Socialists replied rudely that they could not imagine why they had been consulted, and that they would in no circumstances support such a proposal. President Hindenburg, Herr Treviranus added, was very sensitive over the fact that none of his old friends now ever came near him, and intended to ask Herr von Oldenburg-Januschau, the 76-year old East Prussian Junker, point-blank where the Nationalists stood in regard to him.

3. As regards Dr. Curtius, Graf Dohna gathered from Herr Treviranus that the Government were embarrassed because there was no obvious person to succeed him were he, as was likely, forced to resign. Herr Treviranus apparently does not now think much of his own prospects. Baron von Neurath, he said, was being considered, but the Government did not wish to bring him back from London. Herr von Hassell, the German Minister in Belgrade, was also under consideration, but there were obvious difficulties

about appointing a Minister over the heads of Ambassadors. According to Herr Treviranus, the Chancellor, if left to himself, would be quite happy to do without a Foreign Minister, and would be satisfied to direct the Ministry himself aided by a Secretary of State.

4. Meanwhile, rumours are current, and have reached the press, that, on his return from Geneva, Dr. Curtius will resign his post as Minister for Foreign Affairs, but will remain in the Cabinet. Dr. Brüning himself, it is said, will then assume the portfolio of Minister for Foreign Affairs, and Herr von Bülow, who is considered to have been compromised over the Austro-Hungarian Customs Union project, and who is said not to get on with the Chancellor, will be replaced by Herr von Hoesch from Paris. This change, it is considered, would greatly enhance the prospects of reaching an understanding with France, which the Chancellor is determined, if possible, to achieve. It is further rumoured that Herr von Bülow will then proceed to Washington as German Ambassador.

5. These rumours may be merely intelligent speculation, but I report them for what they are worth.

I have, &c.

HORACE RUMBOLD

No. 242

Sir H. Rumbold (Berlin) to the Marquess of Reading (Received September 21)

No. 715 [C 7150/172/62]

BERLIN, September 17, 1931

My Lord,

In a telegram addressed to you from Washington, No. 557¹ of the 12th September, a copy of which reached me in the bag to-day, I notice that, in private conversation, Mr. Mills, the Under-Secretary of the United States Treasury, has volunteered the suggestion that Germany should take the initiative in raising the question of a revision of reparations or war debts, and might come forward with an offer of 300 million dollars a year.

2. In your telegram No. 183² of the 25th August you authorised me to use the information in Washington telegrams Nos. 504 and 505³ of the 20th and 21st August to convey a warning to the German Government that they should not act precipitately in raising this question. I accordingly conveyed this warning to the German Minister for Foreign Affairs on the 28th August in a conversation reported in my telegram No. 175⁴ of that date. Dr. Curtius on that occasion assured me that the German Government had no intention of precipitating a discussion of reparations or war debts.

3. The suggestion now emanating from Mr. Mills does not seem, therefore, to be altogether consistent with the attitude of reserve which, it was understood, it was desirable that the German Government should observe, at any rate until after Congress had met.

¹ Not printed.

² Not printed. See No. 240, note 2.

³ Nos. 236-7.

⁴ No. 240.

4. However this may be, I have no hesitation in expressing the opinion that the German Government have no present intention whatever of coming forward with an offer of 300 million dollars reparations a year, or, indeed, of committing themselves at the present juncture to any substantial offer. They are, no doubt, resolved that there must be a new settlement before there is any resumption of reparation payments, but how such a settlement should be brought about and what form it might take are probably matters which have not yet so far seriously engaged their attention. For the time being they are more than fully occupied with the urgent problems of their domestic finance.

5. According to a report in to-day's 'Berliner Tageblatt', it is hoped that the savings on reparations in the current budget will suffice to offset the serious reductions now to be anticipated in the taxation yields as estimated before the crisis. In view of the uncertainty prevailing as to what will happen on the expiry of the so-called Hoover year, it is difficult to know how the accounts for 1932 should be prepared; the suggestion has even been made that the current budget year should be prolonged until the 1st July in order to bring it into accord with the Hoover year. In this report it is incidentally stated that there can be no doubt that should any reparation payments be called for in 1932, the amount, whatever it might be, could not be covered by the present rate of revenue. New sources would, therefore, have to be created, but it is impossible to see where.

I have, &c.

HORACE RUMBOLD

No. 243

Sir H. Rumbold (Berlin) to the Marquess of Reading (Received September 21)

No. 720 [C 7153/73/18]

BERLIN, September 18, 1931

My Lord,

As the day approaches for the visit of the French Ministers to Berlin the comments of the German press, which have not yet so far been very numerous or illuminating, merit closer attention. The Paris correspondent of the 'Berliner Tageblatt' has made a moderate and useful contribution to his paper on the subject. After pointing out the difficulties with which the French Ministers had to reckon in certain French circles, in accepting the invitation of the German Government to come to Berlin, he writes that French and Germans who know the field of industry from long collaboration are convinced that the meeting in Berlin must have practical results if the consultations between the Ministers are not burdened with the well-known and still insoluble political difficulties, or prejudiced by noisy street demonstrations. It is, of course, not impossible that political questions will be touched upon in the conversations in so far as the discussion takes place in a pleasant and confidential form. But it would be premature to expect sensational political results, which are not attainable in Berlin if only because the internal difficulties in a Germany torn by want and hate contain, in the French eyes, no

guarantee for the future. If the visit to Berlin succeeds in dispelling this mistrust, more will have been gained than through cartels and trusts.

2. I notice that in his telegram No. 208¹ of the 14th instant His Majesty's Minister at Paris, alluding to the impending visit of the French Ministers, says that there is anxiety, and, in some quarters, even doubt as to the utility of their going. This doubt is reflected in the German press of the Right, and especially in the 'Kreuz-Zeitung' of the 16th instant. I gather that there is some apprehension in Government circles with regard to the character of the reception which the French Ministers may receive. Although the police are efficient, they obviously cannot prevent the utterance of hostile cries, and experience has shown that the Nazis, for instance, are completely indifferent to the impression which their proceedings may make abroad. The excesses which they committed under a concerted plan on Saturday last, the 12th instant, when they assaulted and injured many persons of Jewish appearance in one of the principal avenues of the town, furnish one more proof, if such were wanted, of their readiness and capacity to outrage public opinion.

3. The suggestion was at one time made, though not by the Government, that the visit of the French Ministers might take place at Baden. A prominent banker, in conversation with me, endorsed this suggestion, but I pointed out that, apart from the fact that the French Ministers might prefer to abandon the visit altogether rather than come to Baden, had the German Government seriously entertained the suggestion it would have been tantamount to an admission on their part that they could not guarantee the French Ministers against a hostile reception in Berlin.

4. It may be doubted whether the recent proceedings at Geneva have improved the atmosphere for the visit. The circumstances in which the projected Austro-German Customs Union was dropped created an unfortunate impression in Germany, and led to renewed attacks on Dr. Curtius and to demands for his resignation, which are not a good prelude to the French visit. We have had M. Briand's speech, which made an unfavourable impression in this country. Dr Curtius's speech has also apparently drawn angry comment from practically the entire French press, as a result of which the 'Germania' has been constrained to remark that it can only put on record that Dr. Curtius's great speech fully expresses the views not only of the present German Government, but of the overwhelming majority of the parties and of the German nation, and that there is no reason why declarations which have been made officially and unofficially over and over again on other occasions, would not be repeated before the forum of the nations of the world. The 'Berliner Börsen-Courier' adds that Dr. Curtius in his speech in the Assembly clearly explained the German point of view, and nothing more, and that France will have to reconcile herself to the fact that Dr. Curtius was, in Geneva, nothing more nor less than the mouthpiece of German policy.

5. Although I have carefully read the German press, I have not seen any references to the possibility of the French Ministers suggesting a long-term

¹ Not printed.

loan in return for guarantees. The German public doubtless remembers the statement made by the Chancellor in his broadcast address to the nation on the 4th August, to the effect that 'a large foreign loan at the moment, and for some appreciable time, is beyond the range of practical politics'. It is assumed that the French will not come empty-handed and will have certain proposals to make, and it is thought that these proposals will be of an economic character.

I have, &c.

HORACE RUMBOLD

No. 244

Mr. Osborne (Washington) to the Marquess of Reading
(Received September 20)

No. 578 Telegraphic [C 7539/172/62]

WASHINGTON, September 20, 1931

My telegram No. 575.¹

Secretary of State told me amongst expediences for assistance which they had examined but rejected had been an alleviation of our war debt. Its impracticability as an immediate and isolated measure had been readily apparent. The far more onerous funding terms which had been imposed on us as compared with other allies were he assured me a legitimate cause of shameful regret to all right thinking Americans.

He went on to say that since his return he had been investigating the whole question of debt revision in its ultimate rather than its immediate aspect. Pending summoning Congress there was nothing to be done. But he would tell me frankly that in his and presumably therefore Administration's view there were two main difficulties in the way of revision and one evident method of approach. The difficulties for America lay in Balfour note and in certain provisions of Young plan. It is not always easy to follow or even hear Mr. Stimson's utterances but I gathered in the latter case he was referring to 'Concurrent Memorandum' regarding our payments (see last two pages of Command Paper No. 3343 of June 1929). This provides for transfer to Germany of any relief accruing to allied countries in respect of war debts. Balfour note declares His Majesty's Government's willingness to surrender German reparation claims and to remit debts from allies as part of satisfactory general settlement of war debts and in any case only to receive from debts the amount due to creditors. Net result of these two documents is to establish intimate connexion at any rate in case of His Majesty's Government between receipt of reparations from Germany and payment of debt to America and its . . .² I imagine lies in material it affords to Congress and other opponents of debt revision for claiming that any remission of war debts means that United States are bearing cost of reparations instead of Germany.

¹ Not printed. This telegram of September 19 dealt with arrangements for the delivery of a message from Mr. MacDonald to Mr. Stimson.

² The text here is uncertain.

Method of approach suggested by Mr. Stimson clearly involves a recommendation that question be approached from other end. He said first step might be that Germany should appeal to committee contemplated under Young plan i.e. presumably that referred to in first paragraph page 8 of Command Paper No. 3343 for a lightening of burden of reparations. He told me that plan contemplated two separate committees one for cases of a declared moratorium and one for consideration of impending difficulties of payment the latter being the one he had in mind but I cannot verify this.¹

Inference seems to be that any possible hope of debt revision is dependent on prior reduction of reparations and minimum . . .² connexion between the two.

He also referred to other difficulties inherent in French attitude and gave me to understand that administration was thoroughly angry with France.

I think the above indications were intended to be helpful.

¹ See No. 245.

² The text here is uncertain.

No. 245

Extract from the Young Plan

(Paragraph 119.) Upon the declaration of any postponement the Bank for International Settlements shall convene the Special Advisory Committee. At any other time when the German Government declare to the Creditor Governments and to the Bank for International Settlements that they have come to the conclusion in good faith that Germany's exchange and economic life may be seriously endangered by the transfer in part or in full of the postponable portion of the annuities, the Committee shall also be convened.

(Paragraph 120.) Upon being convened the Special Advisory Committee shall forthwith consider the circumstances and conditions which have led up to the necessity for postponement, or have created a situation in which Germany considers that her exchange and economic life may be seriously endangered by further transfers of the postponable portion of the annuity, and make a full investigation of Germany's position in regard to her obligations under this Plan.

No. 246

*The Marquess of Reading to H.M. Representatives at Paris, Washington, Berlin, etc.*¹

Telegraphic [W 10757/10755/50]

FOREIGN OFFICE, *September 20, 1931, 7.30 p.m.*

A statement has been issued today for publication in Monday morning's Press announcing and explaining the decision of His Majesty's Government

¹ This telegram and No. 247 were sent to the principal Missions abroad.

to seek power to suspend temporarily the provisions of the Gold Standard Act 1925 which oblige the Bank of England to sell gold on demand.

The full text of the statement is contained in my immediately succeeding telegram, and you should communicate it officially to the Government to which you are accredited. You should also make it the basis of replies to any enquiries you may receive.

The principal points of importance to be borne in mind are—

- (1) that the record of Great Britain since the War shows that she has been determined to honour her obligations to the full, and will continue to do so.
- (2) that the internal position of Great Britain is wholly sound, thanks to the sacrifices made to secure a balanced Budget.
- (3) that the immediate crisis is due to the wholesale liquidation of investments in foreign markets which forces us to protect ourselves.
- (4) that the banks remain open for ordinary business, which will be continued on entirely normal lines.

(Private and Confidential.) For your information and for use if any question is raised, no restrictions whatever are being placed on the free disposal of gold held in safe custody in this country on behalf of foreign customers, nor on gold sent to this country for custody on foreign account or for sale in the market.

You should take any opportunity which occurs of explaining to the Government to which you are accredited that His Majesty's Government is fully aware that the step which they have taken is bound to cause serious trouble and confusion, especially in those countries which in the past have been particularly dependent upon the London market to supply them with credit and other financial facilities. His Majesty's Government is most anxious to minimise these difficulties as far as possible, and will be ready to co-operate in any measures which it may be possible to devise to secure this end.

No. 247

The Marquess of Reading to H.M. Representatives at Paris, Washington, Berlin, etc.

Telegraphic [W 10758/10755/50]

FOREIGN OFFICE, *September 20, 1931, 8.30 p.m.*

My immediately preceding telegram.¹

Press Notice.

His Majesty's Government have decided after consultation with the Bank of England that it has become necessary to suspend for the time being the operation of Sub-section (2) of Section 1 of the Gold Standard Act of 1925 which requires the Bank to sell gold at a fixed price. A Bill for this purpose

¹ No. 246.

will be introduced immediately and it is the intention of His Majesty's Government to ask Parliament to pass it through all its stages on Monday, September 21. In the meantime the Bank of England have been authorised to proceed accordingly in anticipation of the action of Parliament.

The reasons which have led to this decision are as follows. Since the middle of July funds amounting to more than £200 millions have been withdrawn from the London market. The withdrawals have been met partly from gold and foreign currency held by the Bank of England, partly from the proceeds of a credit of £50 millions which shortly matures secured by the Bank of England from New York and Paris and partly from the proceeds of the French and American credits amounting to £80 millions recently obtained by the government. During the last few days the withdrawals of foreign balances have accelerated so sharply that His Majesty's Government have felt bound to take the decision mentioned above.

This decision will of course not affect obligations of His Majesty's Government or the Bank of England which are payable in foreign currencies.

The gold holding of the Bank of England amounts to some £130 millions and having regard to the contingencies which may have to be met it is inadvisable to allow this reserve to be further reduced.

There will be no interruption of ordinary banking business. The banks will be open as usual for the convenience of their customers and there is no reason why sterling transactions should be affected in any way.

It has been arranged that the Stock Exchange shall not be opened on Monday, the day on which Parliament is passing the necessary legislation. This will not however interfere with the business of the current settlement on the Stock Exchanges which will be carried through as usual.

His Majesty's Government have no reason to believe that the present difficulties are due to any substantial extent to the export of capital by British nationals. Undoubtedly the bulk of the withdrawals have been for foreign account. They desire however to repeat emphatically the warning given by the Chancellor of the Exchequer that any British citizen who increases the strain on the exchanges by purchasing foreign securities himself or assisting others to do so is deliberately adding to the country's difficulties. The banks have undertaken to co-operate in restricting purchases by British citizens of foreign exchange, except those required for the actual needs of trade or for meeting existing contracts, and should further measures prove to be advisable, His Majesty's Government will not hesitate to take them.

His Majesty's Government have arrived at their decision with the greatest reluctance. But during the last few days the International financial markets have become demoralised and have been liquidating their sterling assets regardless of their intrinsic worth. In the circumstances there was no alternative but to protect the financial position of this country by the only means at our disposal.

His Majesty's Government are securing a balanced budget and the internal position of the country is sound. This position must be maintained. It is one thing to go off the gold standard with an unbalanced budget and uncontrolled

inflation; it is quite another thing to take this measure, not because of internal financial difficulties, but because of excessive withdrawals of borrowed capital. The ultimate resources of this country are enormous, and there is no doubt that the present exchange difficulties will prove only temporary.

No. 248

Mr. Campbell (Paris) to the Marquess of Reading
(Received September 20)

Unnumbered Telegraphic: by telephone [W 10756/10755/50]

PARIS, September 20, 1931

Following for the Chancellor of the Exchequer:—

In a letter to the Chancellor of the Exchequer now on its way by aircraft Minister of Finance offers to co-operate in any measures which His Majesty's Government may be contemplating.

M. Flandin has explained to me he had two things in mind: (1) if His Majesty's Government consider it necessary to close the Stock Exchange they will do the same here but in that case it would be desirable to secure the closing of other leading Stock Exchanges, e.g. Berlin, Amsterdam. Flandin does not want to close the Bourse but will do it if you wish. (2) Close of market for forward transactions in pound sterling. He thinks this measure should be taken at once and suggests that the Bank of England should confer with Banque de France.

No. 249

The Marquess of Reading to Mr. Campbell (Paris)

No. 249 Telegraphic [W 10756/10755/50]

FOREIGN OFFICE, September 20, 1931

Your telegram (by telephone) of September 20.¹

Chancellor of Exchequer warmly thanks M. Flandin. London Stock Exchange is closing Monday and Chancellor agrees with suggestion for closing Paris Stock Exchange. We are informing Berlin and Amsterdam and suggesting similar action.² Bank of England is getting into touch with Bank of France as regards closing market for forward transactions in sterling.

Repeated to Berlin No. 192, Vienna No. 84, Hague No. 24, Rome No. 243, Stockholm No. 16, Berne No. 32, Brussels No. 62, and Washington No. 665.

¹ No. 248.

² Similar action was also suggested to the Austrian, Belgian, Italian, Swedish, and Swiss Governments. The United States Government was also informed of these suggestions.

Mr. Osborne (Washington) to the Marquess of Reading
(Received September 21)

No. 579 Telegraphic [W 10761/10755/50]

Your telegram No. 667.¹

WASHINGTON, September 20, 1931

I am not sure whether you . . .² this communication will lead to closure of New York Exchange tomorrow since you do not instruct me to suggest it. But I fear that it is very doubtful whether it will have any such result.

Difficulty is that the United States Government is only available today in the person of an official of State Department. President has been since yesterday at his summer camp and has left this evening by train for Detroit while Mr. Stimson is unattainable by telephone.

Substance of your telegram No. 246³ to Paris reached the President at 2.30 p.m. today. I have just communicated substance of your telegrams Nos. 665 and 666⁴ to State Department official but I doubt if he can now reach either the President or Secretary of State. He asked whether United States Government were requested to take any action. I replied that there was no request for action, that the message reported measures of co-operation taken in Paris and (?perhaps elsewhere)⁵ and that I presumed that it was for the United States Government to decide whether any action should be taken here. I also suggested that failing the President or Secretary of State he might communicate the information to Mr. Mellon or Mr. Mills.

¹ Not printed. See No. 249, note 2.

² The text here is uncertain.

³ This telegram cannot be traced in the Foreign Office archives.

⁴ Not printed. See No. 249, note 2.

⁵ The text here is uncertain.

No. 251

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received September 21)

No. 181 Telegraphic [W 10812/10755/50]

Your telegram to Paris No. 247.¹

BERLIN, September 21, 1931

I have communicated Press notice to German Government.

I also read your telegram to Paris No. 247 to Chancellor and to Secretary of State separately. Former said that decision of His Majesty's Government to suspend temporary operation of sub-section 2 of Gold Standard Act of 1925 would naturally have a considerable reaction in Germany. He proposed to make use of fourth paragraph of your telegram to Paris No. 247 beginning 'Private and confidential for your information and for use etc.' at a meeting of Press correspondents today, as he thought that this would have a tranquillizing effect. I therefore gave him the text of the paragraph.

¹ No. 246.

He said that action of German Government in regard to Stock Exchange here would conform to that taken by His Majesty's Government with regard to British Stock Exchange and it was prepared to be helpful in every way.

Secretary of State told me that he had already suggested to principal papers this morning that they should get leading economists to write articles switching discussion regarding maintenance of gold standard on to the theoretical plane as he thought that this would have a reassuring effect.

No. 252

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received September 22)

No. 183 Telegraphic [W 10823/10755/50]

BERLIN, September 22, 1931

So far as I can at present judge from enquiries made in well informed quarters Germans are not inclined to take alarmist view of financial crisis in England feeling that they have just experienced worse crisis here.

After first shock it is thought that latest development may hasten measures necessary to restore the world to health and in particular help Germany by compelling revision of reparations and foreign debts.

It is considered that measures taken in England are the right ones for dealing with the situation and that similar measures ought to have been taken here when German crisis occurred.

One informant stated excuse to close Stock Exchange was welcome since persistent sales largely on foreign account were having very depressing effect. There was fear, however, that rise in bank rate which would perhaps have to exceed 6 per cent might seriously curtail ability of acceptance houses to finance foreign trade.

It is also feared that if tariff restrictions are adopted, Germany may find it difficult to finance payment even of private commercial debts in England.

Chancellor mentioned to me this morning that there was some mystery as to the source of persistent selling from Amsterdam and especially Zürich.

I learn according to banking gossip Amsterdam selling is on Swiss account but whether ultimate sellers are Swiss or not is unknown.

No. 253

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received September 29)

No. 736 [C 7290/11/18]

BERLIN, September 24, 1931

My Lord,

I have the honour to report to your Lordship that an important meeting of the German Nationalist party was held at Stettin on Sunday, the 20th

September, and was attended by some 10,000 people, amongst whom were Prince Oskar of Prussia, Field-Marshal von Mackensen, Bundeskanzler Wagner of the Stahlhelm, and Hugenberg himself. As might be expected, Dr. Hugenberg's speech, which lasted some two hours, was the central event of the meeting.

2. The Nationalist leader laid much emphasis on the fact that his party were ever ready to take upon themselves the responsibility of government. The distribution of political power in Germany, he went on to say, was unequal; but for this there would, long ago, have been in Prussia and in the Reich a Government of national concentration.

3. The speaker reproached the Centre party for its support of the Social Democrats, and for having allowed a dictatorship to be built up on the basis of the Young plan. But for the determined opposition of the German Nationalists, this policy of the Centre, he alleged, would long ago have led to bolshevism in Germany.

4. Although not in the Government, the Social Democrats could not escape responsibility for all that had happened under the present political régime. Dr. Hugenberg then recalled his proposals as to the results of the acceptance of the Young plan. His prophecies, he declared, had been fully realised. In connexion with this, he emphasised the fact that, in spite of the conciliatory attitude of the German Nationalists, who had declared themselves prepared for a *rapprochement* with the Chancellor in June 1930, neither the Centre nor any other party had made them any definite offer of co-operation.

5. Dr. Hugenberg went on to criticise sharply the policy of the Brüning Cabinet, and declared, in particular, that the withdrawal of the Customs Union scheme in Geneva must be regarded as a disgraceful defeat of the Government, which should have been followed by the resignation of the Cabinet and the dissolution of the Reichstag. The conclusion to be drawn from all this was that the direction of the great international negotiations of the near future should be based on the support of the parties of the Right.

6. In a significant passage of his speech Dr. Hugenberg stressed the fact that the German Nationalist party would not consider the actions of the present Government as binding upon themselves, should they come into power. He referred, in particular, to the Franco-German negotiations, which filled him with anxiety. The German Nationalist party, he declared, appealed to the Constitution and Parliament, and called upon the President of the Reich to honour his oath of office. Dr. Hugenberg reminded his audience of the proposals which he had made for agricultural and constitutional reform for years past, and, in this connexion, expressed his opinion on the present financial crisis. In this respect he advocated the setting up in Germany of a separate bank for every profession. In such banks the majority of shares, and the majority of the directorships, would be held by the organisations of the professions concerned.

7. In conclusion, Dr. Hugenberg demanded fresh elections for the Reichstag and the Landtag. If the attempt to rule by dictatorship in Germany were

continued with the support of the President, the latter would certainly, in the eyes of history, lose all his authority. The Nationalist parties were, at any rate, prepared for any attack that might come. The German Nationalist party was firmly united with other patriotic organisations, with the Stahlhelm, and with the National Socialists. Should bolshevism break out in Germany it would receive little actual support. Power would inevitably, in the long run, fall into the hands of the National Opposition. Germany would then at last be resuscitated.

8. In criticising Dr. Hugenberg's speech, some newspapers mentioned that the Chancellor had taken very definite steps towards a rapprochement on the 6th October, 1930, when he received the two German Nationalist Reichstag members—Dr. Oberfohren and Herr von Winterfeldt—and asked them for their co-operation in carrying through his financial and agricultural programme. Dr. Hugenberg, however, alleges that the Chancellor's offer was not sincere and was actuated purely by considerations of political tactics.

I have, &c.

HORACE RUMBOLD

No. 254

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received September 29)

No. 194 Telegraphic [C 7313/73/18]

BERLIN, September 29, 1931

Visit of French Ministers.¹

I assume press correspondents here will have telegraphed text of communiqué issued to the press last night as a result of Franco-German convention.

Communiqué deals with constitution of a mixed Franco-German Economic Commission (see my despatch No. 738² of September 24th).

Secretary of State particularly drew my attention to two passages in the communiqué which state that task of Commission is to examine economic questions which interest both nations without losing sight of interests of other countries and necessity of international co-operation, and further that representatives of both countries wish to make it clear that their proceedings will not be directed against the economy of any other country.

¹ MM. Laval and Briand visited Berlin on September 27-9, 1931.

² Not printed. The communiqué also stated that the representatives of the two countries were opposed to any increases in customs duties. In a semi-official press communiqué of September 29 it was stated that the Commission, which would include representatives of trade, finance, and labour, as well as officials, would probably meet in the middle of October.

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received September 29)

No. 195 Telegraphic [C 7324/73/18]

My immediately preceding telegram.¹

BERLIN, September 29, 1931

Atmosphere in which visit of French Ministers took place was excellent though result of Hamburg Senate election showing a large increase in National Socialist and Communist votes caused an unfortunate impression.

French and German Ministers evidently got on good terms but only ostensible result of the visit was constitution of Franco-German economic commission.

Secretary of State told me last night that when he arrived French Prime Minister was still greatly preoccupied by difficulties in which Banque National de Crédit had been involved necessitating Government intervention. But French Prime Minister has recovered his equanimity in the course of his visit. It soon became apparent in the course of discussions that French Ministers had come with a strictly limited mandate from their Government and that their hands were tied. It was also evident that M. Laval was thinking of forthcoming elections in France and that having regard to present composition of the French Chamber he was anxious to avoid any accusation that he had made concessions to Germans.

Thus neither reparations nor disarmament nor possibilities of treaty revision were discussed.

No allusion was made to the German pocket battleships.

Secretary of State said that Germans had several times tried to lead up to question of reparations by pointing out necessity in which they were to force their exports but M. Laval had carefully avoided reparations question. If Secretary of State faithfully reflects official German opinion, Germans are evidently somewhat nettled at having been unable to secure a discussion of reparation question; all the more so in view of M. Laval's impending visit to Washington where it is assumed that reparations and inter-Allied debts will be discussed.

Germans think M. Laval missed an excellent opportunity of a heart to heart talk on this question which would have been useful to him in his conversations with Hoover.

Minister for Foreign Affairs who sent for me this morning confirms what Secretary of State told me though he did not show any indication of annoyance at non-[? discussion]² of reparations question. He admitted that the French and Germans had reviewed the position created by England's temporary going off gold standard as well as currency crisis in Scandinavian countries. They had [? agreed]² that whilst questions of reparation, disarmament and treaty revision were elements making for unrest and unsettlement in the world, those questions were not susceptible of solution for the moment.

¹ No. 254.

² The text here is uncertain.

They could only be solved gradually. Minister for Foreign Affairs described the constitution of Franco-German Economic Commission as a kind of sheet-anchor in Franco-German relations. This commission was a beginning which he hoped would lead to a gradual settlement of more vital questions. French visit had had a considerable psychological value and public opinion in the world generally had built such hopes on a Franco-German *rapprochement* that he foresaw that the two countries would be obliged to accelerate solution of the many outstanding problems between them.

Finally Minister for Foreign Affairs admitted that the German Government had been very anxious lest some unfortunate incident should mar the French visit. This would have been a disaster and elaborate and extensive measures had been taken to prevent anything untoward happening.

No. 256

Sir H. Rumbold (Berlin) to the Marquess of Reading

(Received September 29)

No. 196 Telegraphic [C 7325/172/62]

BERLIN, *September 29, 1931*

Secretary of State told me last night that there was considerable anxiety amongst the Bankers at Basle about the present economic situation in certain of the smaller countries in Europe. M. Quesnay¹ had therefore gone to Paris four or five days ago and had urged on M. Laval necessity of granting credits to and helping those countries, for he foresaw that if they collapsed economically it would be impossible to put them on their legs again.

M. Laval had listened sympathetically and had promised to discuss the matter with his Cabinet whereupon M. Quesnay had said that this was not sufficient and that the time had come to take up the reparations question again. M. Laval had agreed with some reluctance to mention this also to the Cabinet but when M. Quesnay went on to say that the opportunity must also be taken to review questions which were causing such uneasiness and unsettlement in the political atmosphere in Europe M. Laval had declared emphatically that this was impossible.

¹ General Manager of the Bank for International Settlements.

No. 257

Note by Sir R. Vansittart

[C 7383/73/18]

FOREIGN OFFICE, *October 1, 1931*

The German Counsellor came to see me this afternoon by instructions from his Government to give me a full and frank account of what had taken place during the recent French visit to Berlin.

He said that, as we would have noticed, the results were exceedingly meagre. Nothing important had really been discussed at all. M. Laval had made only a passing reference to disarmament. On this he had confined himself to saying that France could not disarm as she was the last bulwark

against Bolshevism. This, said Count Bernstorff, was, from the German point of view, quite unsatisfactory. As to reparations, M. Laval would say no more than that they were not prepared to let the Germans off the unconditional annuities. There had been some talk of ships, not battle-ships, but commercial construction. M. Laval had thrown out a hint that there might be some understanding between the two countries on this point, and the Germans understood that what he was really driving at was that the Germans should undertake to limit or suspend their construction in this respect. The Germans had not however felt able to discuss this and had pointed out that it was a matter in which we and the United States were also vitally interested. There had also been an arrangement to suspend the necessity of visas for Germans going into France, and this was the sum total of what had been achieved beyond the constitution of the Economic Committee, which has already been announced in the press.

It had been given out that the object of the French visit was to normalize relations which hitherto had been abnormal. Count Bernstorff said that on the political side nothing much, as shown above, had been said or done; and that, as regards the economic side, Franco-German economic relations had been quite fairly satisfactory for some years past. He added that it was clear to his Government that the French were marking time and would not commit themselves in any way until after the French visit to Washington. The German Government, he said, were of course disappointed with the sum total of the visit; they had not expected much result and there had been even less. They themselves would, for instance, have been perfectly prepared to go further in the discussion of such matters as disarmament and reparations, and in regard to the latter had at least expected to be given the opening of a French enquiry as to how they, the German Government, proposed to carry on after the New Year. Nothing of the sort had however occurred. Count Bernstorff said he could only add that throughout the discussion the German Government had been careful to envisage nothing which might have a possible point against a third party.

R. V.

No. 258

Sir H. Rumbold (Berlin) to the Marquess of Reading

(Received October 2)

No. 198 Telegraphic [C 7399/9/18]

Your telegram No. 203.¹

BERLIN, October 1, 1931

If Standstill Agreement² were fully effective any pressure on the mark could only arise on current account and export [of] surplus has hitherto been sufficient to cover current requirements.

¹ Not printed. In this telegram of September 30 Sir H. Rumbold was asked to obtain a provisional opinion from Mr. Rowe-Dutton on the general economic position and prospects in Germany.

² This agreement, reached at Basle on August 19, provided a six months' prolongation of short-term credits in Germany. See below, Appendix II, p. 490.

But there is still a certain capital drain. Mark deposits and seasonal credits may be withdrawn under agreement and foreign-held securities may be sold and proceeds withdrawn. These gaps may be stopped since Reichsbank can appeal to Bank of International Settlements regarding mark deposits and Stock Exchange remains closed.

Sterling position has moreover thrown unexpected burdens on the mark, particularly as regards foreign trade financing and German debts and importers are said to cover sterling liabilities in advance. Foreign exchange resulting from exports also tends to remain abroad.

There is thus a considerable strain on the mark and a strengthening of foreign exchange regulations is anticipated in order to cling to gold as long as possible.

Prospects for exports are also much less favourable owing to sterling competition. This has forced the hand of German Government to take counter measures which will probably take the form of further lowering of wages and social insurance. Position of Dr. Brüning is undoubtedly more difficult but until Reichstag reassembles on October 13 it is impossible to forecast whether he will be able to face political trouble which might arise either from Social Democrats or the Right. A serious internal political crisis may result. Conjunction of above factors might easily upset the present precarious balance of exchange. It might be temporarily restored by rigorous exchange rationing, resulting in a further limitation of imports and pressure to export but I cannot attempt to predict how long this would be effective.

If however Dr. Brüning overcomes the immediate problems and succeeds in carrying his policy of custom prices and wages, position may be held for some time perhaps until February.

If however Germany were to be forced off gold standard without time for careful preparation of public opinion and possibly arrangements to peg the mark to sterling, the results might be disastrous. Banking system could hardly be maintained without printing additional currency which would be quickly followed by all the phenomena of inflation.

No. 259

The Marquess of Reading to Mr. Osborne (Washington)

No. 703 Telegraphic [C 7539/172/62]

Your telegram No. 578.¹

FOREIGN OFFICE, October 5, 1931

My immediately following telegram is primarily for your own information, but can be used at your discretion—and verbally—in the event of opportunities and openings in further conversations with Mr. Stimson or Mr. Castle. It is probable that you will get such an opportunity, since the United States Chargé d'Affaires enquired here the other day whether we had had your account of your conversation with Mr. Stimson, and what we thought of it.

¹ No. 244.

We would naturally much like to have any further indications you can obtain as to the policy of the United States Government on the whole question, and, subject to your discretion, you should take any opportunity that presents itself to get Mr. Stimson's views more fully. In any conversation with him you are at liberty, if you think it desirable, to use the various points brought out in my following telegram as a personal expression of views, but I do not wish you to give the impression of initiating any representations of an official character on the subject and still less of carrying on negotiations behind the backs of the French. You will have, therefore, to exercise the utmost discretion in anything that you say.

No. 260

The Marquess of Reading to Mr. Osborne (Washington)

No. 704 Telegraphic [C 7539/172/62]

My immediately preceding telegram.¹ FOREIGN OFFICE, October 6, 1931

His Majesty's Government gratefully welcome the remarks of the Secretary of State as to an alleviation of the British war debt settlement and his desire to seek means of helping us. If any public indication of his views were possible, it would certainly have a most reassuring effect on public opinion here.

We think that the impression that it is impossible to give us any effective help on account of the terms of the Balfour Note rests to some extent on a misconception. It is often assumed that under the Balfour Note and the Young Plan His Majesty's Government would receive no net benefit from a remission of our debt to the United States Government. This is not the case. Apart altogether from the importance to us of being relieved of our obligation, our war debt agreements with France and our other Allies entitle us to recover from war debts and reparations, not only our *current* payments, but also the accrued deficiency between our past receipts and our past payments, including 5 per cent. interest on both sides of the account. This deficiency which we are entitled to recover amounts to nearly £200 millions so that it would be a number of years before we should be bound, under our war debts agreements to reduce the payments made to us in respect of inter-Allied war debts. The position as regards reparation is somewhat different: we have not given to Germany any undertaking such as that which we gave to France and Italy that we would reduce the annuities payable to us if at any time our total receipts should completely cover our total payments; our undertaking to Germany is embodied in the so-called 'Concurrent Memorandum' attached to the Young Plan and is to the effect that we will pass on to Germany two-thirds (or in certain circumstances three-quarters) of any net relief which we may effectively receive in respect of our war debt payments.

Thus, in the event of a revision of our war debt, we should under this

¹ No. 259.

arrangement pass on to Germany a proportion of the relief which we received but we should not be under any obligation at once to reduce the war debt payments due to us by our Allies and we are entitled to continue to receive (a) the German annuities reduced as explained above, and (b) the full war debt annuities payable to us until our receipts from both sources together have covered our accumulated deficit of about £200 millions. In any final liquidation of debts and reparations His Majesty's Government would certainly have to press, as strongly as possible, their claim to repayment of these arrears, as a condition of renouncing war debts.

Apart from this question of arrears we recognise that, if the United States were to revise war debts we should be bound to pass on to our debtors any concession made to us by the United States Government.

We are not, however, clear why this should create difficulties for the United States Government. These difficulties could be got round if the United States Government were willing to release us from our obligations and take over the claims which we have on Germany and other Powers; but we assume that such a procedure is not a practical possibility.

The fact that we have been forced off the gold standard has altered the position in which we were placed by the Young Plan to our detriment. The intention of that settlement was that we should at any rate receive full cover for our current war debt payments each year. But the position now is that our liabilities are in gold, while about half our receipts (namely those from war debts) are sterling assets, the remainder (namely, our receipts from German reparations which are mainly derived from the conditional part of the annuities) have become a very doubtful, if not quite worthless asset. If there were any question of reviving the Young Plan at the end of the Hoover moratorium, we should have to try and secure an equitable readjustment of our position. But we presume that it is universally recognised (though of course the French have not said so publicly) that there is now no longer any possibility of reviving the Young Plan, and our objective must be to obtain a definite solution of the hitherto insuperable difficulties associated with debts and reparations.

As we understand it, Mr. Stimson appeared to suggest that the first step in revising inter-governmental obligations should be a practical recognition by the Governments concerned of the fact that Germany is unable to continue reparation payments, and that the revision of war debts should follow as a consequence. As the United States Government are aware His Majesty's Government are deeply impressed with the necessity for a revision of the reparation settlement and urged action to this end at the recent London Conference.

In this connexion Mr. Stimson referred to the Committee provided for under the Young Plan (which is constituted in the same way whether it meets after the declaration of a moratorium or for consideration of impending difficulties). This Committee has the advantage that the machinery for convening it is already fixed. But the terms of reference laid down by the Young Plan for this Committee are 'to indicate what are the measures that

should be taken *in regard to the application of the Plan*. These words were intentionally ambiguous as the French experts on the Young Committee maintained that the Committee should not be competent to revise or alter the Plan, while the Germans took the opposite view. We fear that this ambiguity would be bound to create difficulty as the past history of the matter would probably lead the French to insist on the narrow interpretation. A further difficulty would arise from the fact that the members of the Advisory Committee under the Young Plan must not be officially connected with the Central Banks or Government departments of their countries; this would rule out many of those most familiar with the problem in this country.

In any case the questions which require urgent settlement are in our view essentially political questions which the Governments alone can decide and no Bankers' Committee can make further progress. It will be remembered that the Bank for International Settlements reported in that sense last July and the Basle Committee of Bankers set up in August as a result of the London Conference concluded with the recommendation that the Governments should lose no time in taking necessary remedial measures. It would be useless even to ask that committee to elaborate the measures that they had in mind unless an agreement in principle had already been reached between the Governments concerned. It seems to us therefore that the only course likely to secure rapid and adequate progress would be direct discussions between the principal Governments.

No. 261

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 5)

No. 200 Telegraphic [C 7452/9/18]

BERLIN, October 5, 1931

I have discussed various aspects of situation here with my American, French and Italian colleagues and think that they would endorse following appreciation.

Financial situation has deteriorated considerably in the last few days.

Latest Reichsbank return came as a shock to public opinion and is causing Chancellor much anxiety.¹ Three causes are at work namely; continued withdrawal of marks under Standstill Agreement, sale of German securities and in many cases retention abroad of proceeds of sale of German exports.

Drain on the mark is likely to continue for five months.

A prominent banker states withdrawal of marks and sale of German securities are for American account. Uncertainty as to political situation in England and fluctuations in the value of the pound, further complicate matters. German Government are anxious for a currency conference and

¹ The Reichsbank statement on October 2 showed losses of RM 232,700,000 in gold and foreign exchange during the previous week.

public opinion builds great hopes on French Prime Minister's visit to Washington.

As regards political situation recent election at Hamburg came as a shock to Government as showing that extremist parties are still gaining ground. There is talk of a working arrangement in the Reichstag between National Socialist and Nationalists and extent of Chancellor's majority is considered to be precarious.

In economic domain Chancellor professes confidence that he will be able to bring Germany through the winter and secure an arrangement between employers and employed on wages question. I share view of my colleagues that situation is serious and time factor very important.

I was struck by the anxiety expressed by my French colleague who is a fresh observer of events.

No. 262

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 9)

No. 772 [G 7582/11/18]

BERLIN, October 6, 1931

My Lord,

The evening press to-day publishes a letter dated the 3rd instant from Dr. Curtius to the Chancellor in which the former asks Dr. Brüning to submit his resignation to the President. The wording of the letter shows that immediately after his return from Geneva Dr. Curtius had announced his decision to leave the Government. It was obviously impossible for his resignation to take effect before the visit of the French Ministers and there was nothing in Dr. Curtius' demeanour during that visit and immediately after its conclusion to show that he had already decided to resign. In fact, my principal colleagues and I myself were under the impression that Dr. Curtius had weathered the storm which had been gathering over his head and that he was likely to remain in office for a little time longer. His own party, the People's Party, contributed largely to hounding him out of office, and he had no backing in the Reichstag.

2. Dr. Curtius would appear to have been made the scapegoat for the practically obligatory renunciation for their part by the German Government of the proposed Austro-German Customs Union. As Foreign Minister he was, no doubt, technically responsible, on the German side, for launching that scheme, Herr von Bülow and Dr. Ritter, however, being the real sponsors of the idea. I was informed, at the time, that the Chancellor was an unwilling adherent of the proposed Customs Union, and it remains to be seen whether, even although Dr. Curtius has resigned, the Chancellor will escape a vote of censure in the Reichstag for the way in which the whole matter has been handled.

3. My principal colleagues and I regret Dr. Curtius' departure from the

Ministry for Foreign Affairs. Although he had neither the imagination, the wide outlook, nor the political genius of his predecessor, he was a level headed man, whilst his quiet and courteous manner made him pleasant to deal with.

4. The following are some of the press comments on his resignation commencing with those of the three organs of the People's Party—the 'National Liberal Correspondenz', the 'Magdeburger Zeitung' and the 'Pfälzische Rundschau', which are friendlier than might have been expected.

5. The 'Correspondenz', which is the principal organ of the People's Party, says that Dr. Curtius has served a cause which is the greatest to which a German can devote himself, i.e. he has been his country's advocate in the international forum. If there is any special recognition which will rejoice him now, it will be chiefly that which has so often been expressed by the German minorities whose interests he has always defended with such conviction. His dearest wish will be that his successor may have an easier task than he. The 'Magdeburger Zeitung' says that Dr. Curtius had a great reputation abroad as an expert on reparations. He has also, it adds, succeeded in making himself known as an independent character—an aspect in which he has often revealed himself to his own party—in so far as this is possible for a German in present conditions. The paper also pays a tribute to Dr. Curtius' energetic efforts on behalf of the German minorities. The Palatinate organ expresses regret that Dr. Curtius' resignation did not take place immediately after the failure of his Customs Union policy, not on the ground that he himself was responsible for a fiasco which was really due to the financial crisis, but in order that an effective protest might be made before the whole world against the ways and means adopted by France to nip in the bud every sign of renewed German vitality.

6. A friendly article in the Chancellor's organ 'Germania' lays stress on the fact that Germany desires in her foreign policy to continue on the road of international co-operation which she has on the whole pursued during the last few years. Dr. Curtius, says the paper, took over the heritage of Dr. Stresemann at a time when Germany had fallen into a state of stagnation from which it was almost impossible to escape. Dr. Curtius devoted himself to this task with all his powers and it would be ungrateful not to recognise the services which he has performed in pursuing a straightforward foreign policy.

7. The Nationalist 'Deutsche Tageszeitung' says that Dr. Curtius' activity is a real proof that foreign policy cannot be brought to success merely by means of logic and objectivity but that it is an art which requires both imagination and also special gifts. At the same time, adds the paper, it must not be forgotten that a German Foreign Minister is confronted with tasks more onerous than those which face any other European Foreign Minister.

I have, etc.,

HORACE RUMBOLD

No. 263

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 7)

No. 203 Telegraphic [C 7536/11/18]

BERLIN, October 7, 1931

I learn from a sure and confidential source that Chancellor will probably take charge of Foreign Office for the time being and that Baron Neurath is eventually likely to be appointed Minister for Foreign Affairs. The President is anxious to have Neurath at the Foreign Office but the Chancellor has misgivings regarding appointment which he fears might indispose the Social Democrat party on whose support he continues to rely.

No. 264

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 7)

No. 204 Telegraphic [C 7548/11/18]

BERLIN, October 7, 1931

It is officially announced that Cabinet on the completion of the new emergency decree¹ decided in view of Dr. Curtius' resignation to tender to President resignation as a whole. President has accepted Cabinet resignation and charged Dr. Brüning with the formation of a new government on non-party lines.

¹ This decree was issued on October 7 with a view to 'safeguarding the economic and financial situation and combating political excesses'.

No. 265

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 13)

No. 787 [C 7668/11/18]

BERLIN, October 7, 1931

My Lord,

It may be appropriate if, on the eve of the reassembly of the Reichstag, I attempt to submit an appreciation of the political situation, although such an appreciation presents considerable difficulties in view of the rapidity with which the scene changes. As Dr. Curtius said to me when I last saw him: 'We are living not by the hour, but by the minute hand of the clock.'

2. It had been rumoured for some time past that the Chancellor would, without entering into any understanding with Hugenberg, probably broaden the basis of his Cabinet by filling the two vacant Ministries by persons standing

to the Right of the Centre and by making a change at the Ministry for Foreign Affairs. This was the idea developed to me by Herr Weismann, the Prussian Secretary of State (please see my despatch No. 641¹ of the 20th August). It was generally taken for granted, however, that the Chancellor would continue to depend on the support of the Social Democratic party both in the Reichstag and in general. Dr Breitscheid recently led one of my colleagues to understand that he expected the Chancellor to remain at the head of affairs, and this can only be with the continued support of the Social Democrats. The press yesterday categorically announced that the Cabinet would resign to-day in order to permit the Chancellor to reconstruct the Government before the Reichstag met. The statement was repeated in this morning's press, and it was officially announced this evening that the Chancellor had submitted the resignation of the Cabinet as a whole to the President, who had charged him with the formation of a new Government without party attachments. On the 6th instant the Chancellor addressed the joint committees of the Reichsrat on the economic and financial situation of Germany. A member of the Reichsrat, whom I saw immediately after that meeting, informed me that the Chancellor had not breathed a word about the proposed reconstruction of the Cabinet, although a categorical statement regarding the proposed reconstruction had, much to the Chancellor's annoyance, appeared in the evening edition of the 'Berliner Tageblatt' of that date. The press announcement went so far as to mention the names of two Ministers, namely, Dr. Wirth and Herr von Guérard, who would probably be dropped, and this had made a painful impression on the Ministers concerned, to whom the announcement had come as a complete surprise.

3. The growing economic and financial difficulties in Germany which are described in the later paragraphs of this despatch, have rendered Dr. Brüning's position very much more difficult. The solution of the problems which they present appears, indeed, to have become impossible by the method of conciliation of the divergent interests represented by the parties of the Right and of the Left respectively, and these parties are definitely tending towards radicalism. The movement of these forces has thus compelled Dr. Brüning to abandon the position of intermediary which he has hitherto taken up, and it seems as if he could only retain power by himself following the movement towards the Right. His first attempt to reconstruct his Cabinet included the offer of the positions of Minister of the Interior to Dr. Gessler and Minister of Transport to Dr. Schmitz of the I.G. Farben-Industrie, together with the appointment of Dr. Warmbold, also of the I.G. Farben-Industrie, to the Ministry of Economics and of Dr. Joel, the former Secretary of State, to the Ministry of Justice. Dr. Gessler, though formerly a Democrat, is *persona grata* with the Nationalists, but anathema to the Social Democrats. Dr. Schmitz is said to be insisting on government by an inner Cabinet Committee with almost dictatorial powers. Other industrialists being consulted are Herren Silverberg and Vögler. These first endeavours may be taken as evidence of Dr. Brüning's recognition of the necessity, if not to

¹ No. 235.

include politicians belonging to the parliamentary parties of the Right in his Cabinet, at least to seek a solution of economic problems on a basis in harmony with the ideas inspiring those parties, and correspondingly repugnant to the Social Democrats on whose support he has hitherto had to rely.

4. On the other hand there is still no sign of the appearance of that union of the *bourgeois* parties for which the situation seems to call.

5. I had a conversation with a prominent member of the People's party on the day on which the results of the Hamburg elections were published. I asked this politician whether he did not think that, in view of the progress which was being made by the extremist parties, the *bourgeois* parties would not do well to forget their differences and close their ranks with a view to supporting the present Government, and I enquired why they could not follow this course. The answer was 'Because we are Germans'. Comment in similar vein is made by the 'Magdeburger Zeitung', which observes that it is typically German that in a situation bristling with difficulties the Reichstag fractions are clinging to their doctrines, while the whole basis of existence of large sections of the people is crumbling away. The People's party is, and always has been, an incalculable party and it is impossible to predict which way it will vote when the Reichstag meets. In any event Dr. Brüning's majority is likely to be very small and there is speculation as to what will happen if a motion of want of confidence is carried against him. I have heard it suggested that, rather than deliver the country over to chaos, Dr. Brüning would constitute a directorate of three persons and govern the country as a dictator.

6. Emergency decrees continue to be published, and their number and complexity are bewildering to the officials who have to give effect to them. A considerable strain is being put on the relations between the Chancellor and the Social Democratic party, owing to the former's attempts to bring down salaries and wages in virtue of his dictum that 'a poor country must be cheap'. A decrease in salaries and wages was inevitable in the economic and financial conditions which have prevailed in Germany during the past two years, and it is only because he happens to be in office that the odium for this state of affairs attaches to Dr. Brüning. The system of compulsory arbitration in labour disputes was, of course, in force long before his time and has, on the whole, worked very efficiently and fairly. Its chief defect is that it makes matters too easy for the employers and employed, and thereby destroys their sense of responsibility; on the other hand, it has saved the country hundreds of millions of pounds in preventing strikes and lock-outs. From the time of the stabilisation of the mark at the end of 1923 until the beginning of 1931 decisions were uniformly in favour of the employed, and there is no justification for the latter to complain because during this year under the most serious economic compulsion awards have gone against them. Of course, only organised workers benefit from this system, and statistics show that, taking 1928 as equal to 100, the hourly tariff wages rose from 72.5 in January 1925 to a maximum of 107.4 in November 1930, and then fell again to 101.3 in July 1931. For skilled workers, in the highest wage class the hourly wage

rose from 92.1 pfennigs in January 1928 to a maximum of 103.5 pfennigs in June 1930; in December of that year a decline set in and by June 1931 the rate was down to 97.7 pfennigs. There can be no doubt, however, that the vast mass of unorganised workers (only about 6,600,000 are organised out of a working population of about 21 million) have fared much worse and have had to submit to repeated drastic cuts since early in 1930.

7. While the Chancellor cannot fairly be blamed for the fall in wages, for the reductions of official salaries in the Reich, the States and the municipalities, for the increase in unemployment and for the stricter administration of the dole, the fact remains that this whole development has caused widespread and deep-seated discontent, which has resulted in hostility to the Chancellor because he is the executive head of the country and there is no other convenient scapegoat.

8. The attempt to equalise matters a little by the inclusion in the latest emergency decree of a measure entitling employers to reduce salaries of over 15,000 marks per annum is not very impressive. It is true that the big banks, the great concerns, public utility undertakings and similar bodies have been very extravagant in directors' fees and managers' salaries, and they may take this opportunity to get rid of some embarrassing long-term contracts with inefficient or unpopular people, but little else is likely to result, as a German board would hardly vote a reduction of its own emoluments and would be reluctant to interfere with those of a good man in its employ.

9. The point in the Chancellor's social policy which gives occasion for most criticism is his failure to make any impression on the cost of living. This has been immovable for at least two years, and the mass of the population feel that a Government which proceeds so rigorously against wages and unemployment relief, should find means to cheapen the necessities of life which those who suffer from the Government's actions have to go on purchasing. So far the system of agricultural protection, combined with subsidies, has defied all efforts to bring down food prices, and no scheme has been devised to reduce retail prices which are the only ones that interest the people. Incidentally, I may mention that my French colleague has complained to me that the cost of living in Berlin is two to three times as much again as that in France.

10. In an endeavour to create a better atmosphere between the employers and employed, the Chancellor intends shortly to convene a meeting between the leaders of the federations and unions of both sides, and he expressed confidence in a recent conversation with one of my principal colleagues, that he would be able to secure an arrangement between employers and employees on the wages question. There is a lack of confidence on the side of labour, however, that any good results will come from the proposed conference. From what I know of German employers and their avowed intention to smash trade unionism, I must say that I am inclined to share this scepticism.

11. From information which has reached this Embassy from reliable trade union sources, it would appear that the unions are afraid that there will be something of a disintegration of the Social Democratic party at the next

elections, resulting in a distinct swing both to the Right and Left among the younger members, more especially as it is felt that the Government at present are showing too great an inclination to support capital at the expense of labour. The Communists have always worked hard to secure representation in the workmen's councils which exist in every factory, workshop, &c., and are often successful in doing so, but lately the National Socialists have shown great activity in this direction, and the trade union leaders, who are mostly Social Democrats of the old school, are apprehensive that where the National Socialists obtain seats they will turn the councils, and ultimately the unions themselves, into Fascist organisations on the Italian model. The view is held in trade union circles that unless some far-reaching, immediate and really practical alleviation for the economic troubles of the world is forthcoming as a result of the impending Franco-American conversations, the next elections will result in an overwhelming majority for the Communists and National Socialists divided more or less equally between them. The subsequent deadlock would, in the opinion of the trade unionists, be overcome, after a certain amount of bloodshed, by the National Socialists establishing a kind of Fascist dictatorship. The latest Emergency Decree indicates that the Government are anticipating trouble from the extremists already during the coming winter.

12. On the other side, the Nazis, Nationalists and Stahlhelm have closed their ranks. Much as they respect him, they are through with President Hindenburg, whom they consider too old and entirely in the hands of wrong advisers, and they are showing united and uncompromising hostility to Dr. Brüning. Encouraged by the recent split in the Social Democratic party and the results of the Hamburg elections, the Right 'National Opposition' is now making an immediate general election its first objective.

13. The industrialists, meanwhile, disturbed by the internal financial situation, and seriously shaken by the effects of the fall in the pound, are wavering in their allegiance to Dr. Brüning. This is more serious, and his first problem in the reconstruction of the Cabinet is to endeavour to win back their confidence.

14. Two factors remain constant, however, namely, that neither the Centre, the Social Democratic nor the *bourgeois* parties have any interest in new elections, and that there is no visible successor to the present Chancellor. Incidentally, I may mention that I am informed that there is a likelihood of the disappearance of the present Centre-Social Democratic combination in Prussia at the next elections for the Prussian Landtag in the spring.

15. The financial situation continues to cause anxiety, and it would appear that the Stock Exchange is closed for an indefinite period. In fact, the Government dare not allow it to reopen, fearing a collapse of even the best German securities. As an example, I might mention that the Deutsche Bank, whose shares had fallen very considerably, recently bought 30 per cent. of its own shares. Under one of the Emergency Decrees no bank is allowed to hold more than 10 per cent. of its own shares. The consequence is that the Deutsche Bank might, if the Stock Exchange were open, have to unload

20 per cent. of its shares on to the market, with results which can well be imagined.

16. The financial position of the Government has been alleviated by the Hoover plan, but even with the help of this it will be difficult for the Minister of Finance to make his budget balance this year. This is particularly due to the very serious situation of the municipalities, who will have to call upon the Reich for a considerable measure of assistance to save them from bankruptcy.

17. The short-term foreign indebtedness of Germany is largely governed by the provisions of the Standstill Agreement, under which only limited withdrawals of credits can take place until the end of February. In spite of this, and of the decrees compelling owners of foreign exchange to surrender it to the Reichsbank, the latter has recently lost considerable sums of gold and foreign exchange, and the percentage cover for the note circulation at 31.2 has reached a new low level for the year. The large export surplus attained for the months of July and August has not so far resulted in any strengthening of the position of the Reichsbank, and very little progress appears to have been made towards meeting the liabilities which will fall due when the Standstill Agreement comes to an end next February.

18. Meanwhile, the fall in the value of sterling has caused great anxiety lest British competition should reduce Germany's power to export. An immediate result has been an increase in the stringency of the control over foreign exchange transactions, which may presage a drastic restriction of imports, while further measures to counteract the effects of the British action are understood to be under consideration.

19. Internally the banking position is far from strong. The assets of the banks are still very much frozen, and the Reichsbank has accordingly had to lend a great deal of assistance. The amount of currency in circulation is high, and it appears probable that, as in other countries, a certain amount of currency hoarding is going on, reflecting a lack of confidence on the part of the public in the banks and savings banks.

I have, &c.

HORACE RUMBOLD

No. 266

Note¹ of Conversations between the Marquess of Reading and MM. Laval, Briand, and Flandin in Paris on October 7, 1931²

[C 7717/172/62]

A general discussion took place between M. Laval, M. Briand, M. Flandin and Lord Reading.

Reference was made to the desire, which Lord Reading had expressed

¹ The records in Nos. 266 and 267 were made by the British representatives for the use of His Majesty's Government.

² Sir F. Leith-Ross accompanied the Marquess of Reading to Paris and took part in the conversations with the French Ministers.

to the Ministers separately, for frank and friendly co-operation between the two Governments and all three Ministers expressed their approval. In particular, and running throughout the discussions, the suggestion was at various times made that difficulties would often be smoothed over or minimised if previous conversations took place, and they begged Lord Reading to let them know when changes were about to be made whenever it was possible. To this Lord Reading agreed and said these interchanges must be reciprocal, and that they should be prepared for the taking of steps that might conceivably annoy some portion of the population of France. Nothing definite could be said at the moment, but the Government after the Election would have to face very serious fiscal questions. These might be comparatively minor matters, but they tended to interfere with cordial co-operation on major questions unless they were kept within their proper limits. The French Ministers agreed.

M. Laval exposed at some length the attitude of public opinion in France at the present time. He said that there was a disposition on the part of the population of France to hoard their resources and not to invest them even in French undertakings. Something must be done to alter the state of affairs. The present crisis was essentially a crisis of confidence and it could not be cured except by a policy which would impress public opinion. It must be a bold policy covering debts and reparations, on the one hand, and a political truce and disarmament on the other. The latter question was the fundamental one. M. Laval referred to the question of French security and said that it was his intention to raise the question when he was in Washington, and he hoped that it might be possible to find some solution in consultation with the American Government.

M. Briand said that he had discussed the question of the Kellogg Pact with Mr. Stimson in connexion with the disarmament question, and both he and M. Flandin agreed that if there was something in the nature of a *contre-partie* by way of security, in other words, implementation of the Kellogg Pact, the position as regards disarmament would be altered.

M. Laval emphasised the fact that France was ready for disarmament. The attitude of the French peasants was undoubtedly in favour of peace and would definitely favour a reduction of armaments provided that their security was ensured. If the next election took place on the disarmament question, it would go very much in favour of the Left and France would soon be at grips with the same difficulties as Great Britain had gone through. It was therefore very important to get some assurance out of America which would satisfy public opinion and enable them to resist the exaggerated demands which the soldiers and sailors were always putting forward and which, being based on grounds of National Defence, were not easy for the Government to oppose.

M. Flandin pointed out that some satisfaction on this point was also an essential condition of the advance of further credits by France. The present position was that no five *sous* could be obtained for loans outside France under existing conditions.

M. Laval then referred to their visit to Berlin and said that he had discussed with the German Ministers the position of England. Both they and the German Ministers had agreed that it was very important that any decisions which might be come to should not have the appearance of being directed against England and this note had been struck in the communiqué which had been issued. When the Commission which had been suggested as a result of the deliberations between the French and German Ministers got to work on particular economic questions, he hoped that it would keep in close touch with similar interests in England and that indeed was the intention of France. As an example, M. Laval referred briefly to the present unsatisfactory state of affairs as regards shipping subsidies. He was firmly convinced that some international agreement should be reached on this question as the present position was that the various Governments were subsidising the construction of extravagant craft and competing against each other in such a way that no one derived any advantage. There must be some common policy in this matter of international trading rivalry.

M. Flandin raised the question of reparation transfers. It was clear that Germany could not pay cash—but France could not renounce all payments. The French Government proposed to meet the difficulty by taking their share in deliveries in kind; but means must be devised to avoid [*sic*] that they should not damage the interests of other countries. They were ready to agree on a list of the deliveries which would not compete with our exports. What they had in mind particularly were public works which would not be otherwise undertaken.

M. Laval said that he thought some solution could be found without doing damage to England. In any case the important thing was that none of the parties should at present take up a position of principle. On the question of reparations M. Laval said that there were others concerned beside France. Belgium, for instance, could not admit the total abandonment of the payment of reparations.

M. Flandin said that the German payments in marks would be available for similar deliveries for these countries, and also for investment either in Germany or in neighbouring countries. The funds might therefore help to meet the capital needs of Germany and to liquidate frozen credits. In reply to a question, he said that what he had in mind was the eventuality of floating a long term loan, which was the only means to clear up the frozen credits: but he recognised that this would have to wait. What alternative was there?

Sir F. Leith Ross said that the view held in the City was that reparations should be cancelled altogether and then credits would flow back to Germany naturally.

M. Laval said that it was politically impossible to wipe the slate completely; but they might do so partially if they could get the necessary advance on other questions.

Lord Reading summed up the discussion by saying that it appeared that everything would depend on what happened in Washington, and that the President would have his difficulties.

M. Laval said that there could be no question that if President Hoover decided to assist in finding a solution, a great revival of confidence would result, but that it would doubtless be necessary to await the meeting of Congress in December.

Lord Reading said that he rather thought that the difficulty would lie in the Senate.

M. Laval said that if there could be a settlement which would cover all the points, an agreement in regard to disarmament and security and a political moratorium which would postpone the issue of such questions as the Danzig corridor and the application of Art. 19 of the Covenant, the problem would be on the way to solution in four months and that loans would then be forthcoming on long term conditions. What was required was courageous action, but at present, in the existing political conditions, no money was forthcoming in France.

Lord Reading thanked the French Ministers for the very full and frank manner in which they had been good enough to explain their position. He did not think they could carry the discussion much further at the moment. Some very important issues had been raised which he would like time to consider. He would accordingly suggest that they should now separate and resume the discussion on the following morning.

This was agreed to.

No. 267

Notes of Conversation between the Marquess of Reading and MM. Laval, Briand, and Flandin in Paris on October 8, 1931

Lord Reading opened the conversation by expressing his thanks to M. Laval and the other French Ministers for the very cordial welcome which he had received. He had been very anxious for personal reasons to come to Paris and make the acquaintance of the French Ministers, but they must not think that he had come only on his own account: on the contrary he had discussed the visit with the Prime Minister and the Cabinet before he left London and they were just as enthusiastic as he was himself on the visit. He was therefore expressing their views as well as his own.

He had reflected on what the French Ministers had said to him at the meeting yesterday, and he found it very difficult to make any very definite comments upon the policy which M. Laval had sketched yesterday for his visit to Washington, as in view of the forthcoming elections in England the British Government was only in the position of a caretaker and could not therefore take decisions on a long policy or make any promises. His Majesty's Government were however very anxious to do everything in their power to keep in close agreement with France. Doubtless difficulties would arise on both sides and it would therefore be better to speak quite frankly. There were one or two points which arose in the conversation yesterday about which he would like to ask the French Ministers for a little further detail. The first

was, what did the French Ministers exactly mean by the expression 'éponger l'ardoise'?

M. Laval said that he intended to cover in his talk with Mr. Hoover the whole field of disarmament, debts and reparations, to see how far it would be possible to proceed on all these questions together. When he used the expression 'éponger l'ardoise' he meant that if the American Government had really some serious proposal about debts he would, for his part, be able to agree to a very considerable sacrifice on the question of reparations, but France could not put debts and reparations on the same basis. France must be assured some reparations, but the further the Americans go in the cancellation of debts, the easier would it be for France to make bigger sacrifices in reparations.

As to disarmament, if the American Government could offer a formula which would guarantee security, the French Government would accept it with pleasure and would go a long way on the road to disarmament, but it was essential that America should do something definite, for example, by agreeing to join in economic and financial sanctions and signing some pact on the subject in extension of the Paris Treaty. This would be undoubtedly the most delicate part of the negotiations, but it was essential that France should have some definite guarantee, and he hoped to be able to find Mr. Hoover ready with some practical suggestions.

Finally there must be a political moratorium on all these questions for some time, in order that it might be possible to get economic agreements between France and Germany and bring some kind of order into the present chaos.

To sum up, the policy which M. Laval sketched for himself was 'precise and vague at the same time'. So far as France was concerned she would do her very best to get some result, and he hoped that he would return with some definite proposals which would be acceptable to his country.

Lord Reading observed that Mr. Hoover had already consulted the leading Senators and this gave the impression that he was practically consulting Congress without actually convoking it.

M. Laval said that he thought that the idea in Mr. Hoover's mind was to suggest a further prolongation of the reparations moratorium and M. Flandin then interjected that this would be of no use.

M. Briand said that Mr. Hoover was faced with preparing for his election next year and he saw that the most difficult question he had to consider was that of the debts to America. He had therefore hit on the idea that if he could represent to the American people that other countries were making equal sacrifices, he might be able to convince the American public of the desirability of cancelling debts. He had therefore linked debts and reparations together and was toying with the idea of a further moratorium for five years.

M. Flandin said that the French Government could not accept a further five years' moratorium. This would upset budgets and would leave uncertainty and want of confidence. If America thought that by this means she could keep her debts alive then the proposal could not be accepted.

Lord Reading pointed out that when Mr. Hoover made his original proposal for a moratorium he had joined debts and reparations together.

M. Briand agreed but said that Mr. Hoover had done this as a gesture in order to safeguard his position on the debts. If the proposal for a further moratorium were rejected, he could say that America had made the offer and as it had been rejected she could not give up debts. It might however not be his last word. M. Briand continued by pointing out that Europe could not neglect America and that all the cards were really in America's hands. There was no use in bringing forward wild ideas about disarmament, but if Mr. Hoover would make some serious proposal, coupled with the assurance of security to France, there should be no difficulty in getting a settlement. This could be done by an extension of the Pact of Paris. Mr. Stimson was perfectly ready for something of this kind, but it must be some really serious contribution and not merely a deception.

Lord Reading said that he thought that there was a movement in America to draw away from the old isolationist theory, and that this movement was growing. He then asked M. Laval to tell him what he thought would be the German reaction to M. Laval's suggestion for a political moratorium. What would a German Minister do when faced with such a proposal?

M. Laval said that in his opinion Dr. Brüning personally would not object to it. Whether the Nationalists could do so was another matter. But Germany like other countries must accept facts if they wished to escape from their present plight. He believed that if Germany secured some material advantage she would accept a moratorium. This was only his personal impression but he felt that Germany could not stand out against the rest of the world.

M. Briand emphasised this by saying that if France, the United States and Great Britain would act together all would go smoothly.

M. Laval added that of course there would be no diminution of German rights, but only a moratorium over a specified period, so that Germany's national pride would not be affronted. There would be no value in the conversations at Washington unless they led up to this. If Mr. Hoover should say that he could not do any more than prolong the existing reparations moratorium, the whole visit would be useless, but if Mr. Hoover indicated that he would go further then something might evolve. The French Government were intending to put these suggestions forward, but if the British or the American Governments could think of a better solution he begged that they would suggest it. He said that he was Prime Minister for the first time and was surrounded by any number of doctors but none of them could suggest a cure for the disease. It was clear that any solution to be effective must strike public opinion and must really relieve budgets and promote credit. He was opposed to international conferences as they were generally dangerous. The London Conference in July had been, from the French point of view, useless. They had only gone to London out of courtesy.

Lord Reading said that nevertheless the idea of a gold conference was very strong in England and that the Government would have to take account of it. In the House of Commons everybody was demanding a conference to discuss

money. If it was objected that neither France nor America were ready for such a conference, the answer was that a great many other countries were, and the question was being constantly asked what initiative the British Government intended to take. At present the idea was still vague but it was growing.

M. Flandin said that there would be no use in having a conference on gold until the other outstanding questions were solved. The moment a conference met and began to discuss the gold problem great divergence of views would appear and this would breed suspicion and generally upset people. In his view a gold conference would only make things worse than they are at present.

Lord Reading said that the question of a gold conference would certainly come up after M. Laval's visit to Washington. If nothing eventuated from that visit something must be done on the monetary question, and His Majesty's Government would be pressed harder than ever. All these questions were in reality interdependent but if no solution were found at Washington it was clear that His Majesty's Government would have to do something.

M. Flandin replied that he felt that, from the point of view of British interests, it would be most dangerous to have a gold conference until the pound had been stabilised. So long as the pound was not based on the gold standard, it was at the mercy of speculators, and a conference, with talk of new standards replacing gold, might provoke terrible perturbation. Both the United States of America and France were anxious to help us to restabilise, but if such theories were to be put forward, confidence would be destroyed and it might be found as had been found in other cases that it was not possible to stabilise when we wanted to do so. He urged that stabilisation should be assured without delay.

Lord Reading said that this surely depended upon circumstances. What, for instance, was going to happen to Germany?

M. Flandin said that at the moment Germany was keeping on the gold standard and had every intention of doing so. He still maintained that the pound ought to be stabilised as soon as possible, and that certainly once the elections in England were over stabilisation should take place.

Lord Reading said that of course we would like to stabilise as soon as possible. But it was certainly impossible to stabilise at once and, for his part, he could not foresee the moment when it would be possible to stabilise. He said that he was speaking in his personal capacity and not of course as a Minister of Finance, but he was confirmed by Sir F. Leith-Ross in saying that an early stabilisation would be most unlikely and therefore he must make it clear before leaving that the French Government must not get the impression that there could be stabilisation immediately after the elections.

M. Laval said that the two Governments must keep in close touch on all these questions. He wished to emphasise the necessity of great discretion in regard to these conversations. He had exposed frankly the ideas which he would take with him to Washington. But if he found it impossible to secure an agreement there, everything he said must be regarded as washed out. It

was essential, therefore, that there should not be any leakage or the position might be compromised. If things went well, he would get in touch with the British Government immediately he returned from Washington.

No. 268

Mr. Osborne (Washington) to the Marquess of Reading
(Received October 8)

No. 625 Telegraphic [C 7591/172/62]

WASHINGTON, October 8, 1931

My telegram No. 624.¹

It seems clear that at the Conference² the President sought, but was repulsed [*sic*], approval in advance of any extension of moratorium which he might negotiate with the French Prime Minister.

¹ Not printed. This telegram summarised Mr. Hoover's public statement with regard to M. Laval's forthcoming visit and the general financial situation.

² On October 6 Mr. Hoover held a conference with leading members of the Republican and Democratic parties in Congress. After the conference Mr. Hoover issued a statement with regard to his plans for the restoration of confidence in the spheres of banking and credit.

No. 269

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 9)

No. 208 Telegraphic [C 7593/11/18]

BERLIN, October 9, 1931

Chancellor is having great difficulty in reconstructing his Cabinet. Many people cannot understand why he has preferred not to present himself to Reichstag with Cabinet which has just issued the latest emergency decree. I am informed confidentially from a source which has always given me reliable information that Chancellor has lost 80 per cent of his prestige at home and that his best friends are deserting him. He takes nobody into his counsel and his prestige abroad is only factor which makes for his retention in office. Same source states that Hugenberg will not take office unless he is given full powers to dismiss Reichstag if necessary. President will not give him such powers as he refuses to be a party to anything in the nature of a *coup d'état*.

Political situation is both obscure and disquieting.

No. 270

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 9)

No. 210 Telegraphic [C 7597/11/18]

BERLIN, October 9, 1931

My telegram No. 208.¹

Chancellor has succeeded in forming new Government, interesting feature of which that General Groener takes over Minister of Interior whilst remaining Minister of Defence. He thus controls both army and police.

¹ No. 269.

No. 271

The Marquess of Reading to Sir H. Rumbold (Berlin)

No. 1092 [C 7609/172/62]

FOREIGN OFFICE, October 9, 1931

Sir,

In an interview with the German Chargé d'Affaires I expressed my regret at the complications which had arisen in the political situation of Germany, and sympathised with the difficulties in which the President and Dr. Brüning were placed. Count Bernstorff said that he was still hopeful, and, indeed, believed that Dr. Brüning would find a solution. Count Bernstorff had heard that it was proposed to invite his chief, the present German Ambassador here, to become German Minister, but he did not believe that the offer would be accepted.

2. I told him that we had not arrived at decisions during my visit to France: we had discussed a great many questions, and especially our respective domestic political situations. I gathered that the French Ministers were in a friendly frame of mind; they told me their visit to Berlin had passed off satisfactorily and they regarded it as an important move that they should have paid this visit to Berlin. They were impressed with the importance of the visit of M. Laval to the United States, and I emphasised to them our great desire that conclusions should be reached which might be accepted by the United States, France and ourselves, and also Germany. Count Bernstorff told me that he was instructed to ask me whether we had arrived at any decisions regarding reparations. I replied that no decisions were reached and that I had explained to the French the situation of our Government, which was in the midst of a General Election. Of course, I told him, we discussed reparations and various views were expressed by them. He interrupted by saying: 'Oh yes; they were well aware of the French views on this subject.' I said we had also discussed matters relating to the future stabilisation of the pound, the international situation regarding currency, other financial matters

and various other subjects of purely domestic concern to France and ourselves. I said that my main purpose, as I had already informed him before I left, was to get into contact with the French Ministers and to lay the basis for future co-operation wherever it was possible. I thought this purpose had been achieved.

I am, &c.

READING

No. 272

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 10)

No. 211 *Telegraphic* [C 7606/11/18]

My telegram No. 210.¹

BERLIN, October 10, 1931

Other changes in Brüning's second Cabinet are as follows:

Foreign Affairs, Chancellor.

Economics: Professor Warmbold of the Dye Trust.

Transport: Treviranus.

Justice: Dr. Joel, formerly Secretary of State in the Ministry.

Thus the Cabinet only includes one new recruit.

Dr. Brüning has thus publicly failed to secure the support of leading persons, notably in industry, and the new Cabinet is generally considered to be weaker than the last.

Ministers of Economics and Justice are considered to have the right² sympathies but the Social Democrats' organ observes that Dr. Brüning has avoided including anyone in the Cabinet provocative to Labour.

Support of People's party cannot be relied on and the fate of the Government in the Reichstag is doubtful. Socialist organ, some Democratic papers and even one Nationalist paper, however, consider the Government might survive a short session in the Reichstag and adjourn it until the spring.

¹ No. 270.

² This should probably read 'sympathies of the Right'.

No. 273

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 10)

No. 212 *Telegraphic* [C 7607/11/18]

My immediately preceding telegram.¹

BERLIN, October 10, 1931

Much will depend upon amount of support which the President will now give Dr. Brüning concerning which there is much discussion. In some quarters reconstruction of the Cabinet is attributed to the President's initiative.

¹ No. 272.

Hitler who was enthusiastically greeted by a large crowd was received by the President to-day in accordance with a long standing application. The Right press naturally makes much of this and the Democratic press is annoyed but it is too soon to say what significance should be attached to the visit.

No. 274

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 16)

No. 801 [C 7750/11/18]

BERLIN, October 14, 1931

My Lord,

With reference to the last paragraph of my despatch No. 784¹ of the 9th October, I have the honour to report that the leaders of the so-called 'National Opposition' assembled as arranged at Bad Harzburg on Sunday, the 11th October. Harzburg is a holiday resort in the Harz Mountains, and was evidently chosen as a meeting-place because it is situated in Brunswick, the only German State at present governed by a coalition of the Right, namely, a Nazi-Nationalist majority. The gathering was undoubtedly impressive in the sense that for the first time since the rise of the National Socialist party they succumbed to Hugenberg's appeals and consented to hold a joint meeting with the German Nationalists, the Stahlhelm, and, nominally at any rate, the People's party (for General von Seeckt, who was present, is stated by the press to have represented that party, though its recognised political leaders were not present). Herr Hugenberg and Dr. Oberfohren represented the Nationalists. Herr Seldte, with the usual gathering of retired army officers, accompanied by Prince August Wilhelm, represented the Stahlhelm, while Herr Hitler, Dr. Frick (the notorious ex-Minister of the Interior in Thuringia and leader in the Reichstag), Herr Goebbels and Captain Göhring [*sic*], a famous war airman, represented the National Socialists. A considerable contingent of the Nazi and Stahlhelm rank and file attended in uniform in military formation, and some thousands of the Nationalist electorate from Hanover and Brunswick formed a background.

2. On the preceding day Herr Hitler, accompanied by Captain Göhring, who is said to enjoy his special confidence, were received in audience by President von Hindenburg. According to an official communiqué the President discussed internal and foreign politics, as well as the aims of the National Socialist movement, with the Nazi leader. For some time past Hitler has been making obvious efforts to legalise his claim to be treated as the responsible leader of the largest constitutional political party. He gave special evidence of the legality of his methods by calling off his followers during the French official visit and muzzling his press until M. Briand and

¹ Not printed. This despatch gave an account of the political situation with particular reference to the Hamburg elections and disunion in the Social Democratic party.

M. Laval had left the country. His decision that his followers are to return to the Reichstag is also regarded as a return to constitutional methods.

3. The Harzburg meeting, which has been a theme of conversation in political circles for many weeks, was expected to make a turning-point in the political history of Germany. For the first time all the parties of the Right were to join forces, and it was expected that the outcome would be a spectacular reconciliation between the Nazis and Nationalists, followed by the issue of a joint programme on which all the parties of the Right had agreed to unite. This was counted upon to win over the small wavering parties of Right tendency. So far, however, as one can gather from the reports of the meeting, little in the way of unity was achieved beyond the outward show, and it remains to be seen whether any real working agreement can be established between the two main Opposition parties. It is true that a joint resolution was passed to the effect that the parties of the Right were ready to take over the responsibility of governing the Reich and Prussia and the other Federal States. Implacable opposition to the present Brüning Government constituted, so far as one can ascertain, the main plank of the political platform on which the groups and parties present agreed to unite. The National Socialist press publishes the speeches of the Nazi leaders as well as the text of the joint resolution in many columns, but devotes only half a column to Herr Hugenberg's speech, while the Stahlhelm are scarcely mentioned as participating. The Nationalist press return the compliment, and are at pains to emphasise the leading part played by Hugenberg.

4. There is nothing in Herr Hitler's speech to suggest that he has sacrificed any part of the Socialist section of his programme in order to fall into line with Herr Hugenberg and the big industrialists. He began by stating that he had spent twelve years in an unbroken struggle 'against the November revolt'. He had prophesied catastrophe, both political and economic, and his prophesy had been fulfilled to the letter. The end of the present system must be brought about at all costs if the country was not to lapse into bolshevism. All previous German Governments, and above all the present Government, were responsible for the disastrous condition of the country. After the usual vehement denunciation of the Treaty of Versailles, 'that instrument for the destruction of the German people', Herr Hitler declared that France, bristling with arms, was compelling the other nations of the world to spend their substance in arming themselves.

5. Determined to save the country from bolshevism, the National Socialists were ready to accept responsibility and take over the government in the Reich and in the Federal States. They were prepared to join hands with the National Opposition and with all those who were prepared to fight the international spirit of Marxism. Above all, the distinction between nationalism and bolshevism must now be made clear.

6. Hitler then proceeded to appeal for co-operation between 'those civilised nations which are prepared to join hands to save humanity from sinking into Bolshevik misery'. His party felt that the struggle against bolshevism was at the same time a passionate struggle for the interests and the several attain-

ments of the German working classes. The standard of living of those classes must be maintained, not only in the interests of internal tranquillity but in the interests of international stability. Indeed, he went on to say, this was one of the preconditions 'for the fulfilment of those non-political financial commitments into which we have entered in the ordinary commercial way'. After a final fanfare against Marxism and bolshevism, and a final declaration of war against the Brüning Government, Hitler concluded with his customary assurance that the National Socialist party would bring about a millennium in Germany.

7. There appears to have been no settled programme at Harzburg. Hitler issued the address summarised above to a gathering of his own followers before noon. It was prefaced by a cynical speech on the part of Herr Frick, who sought to allay 'the very comprehensible misgivings of his party friends' by assuring them that the Nazi leaders were merely using the Nationalists as a convenient ladder to office. Mussolini, he asserted, had done the same thing before assuming sole control of the Government of Italy.

8. In the afternoon Hitler attended the general meeting, at which the other parties and their leaders were present, and at which Dr. Hugenberg was the first speaker. The Nationalist leader began by greeting the assembly as a demonstration of 'national unity'. A new day was dawning, and the united parties of the Right were prepared to assume responsibility for the destinies of the country. The first task of the new Government would be to combat unemployment; their next to combat Marxism. Braun and Severing, the apostles of Marxism, were not to be compared with Mr. Ramsay MacDonald. He appealed to the Centre party to break the unholy alliance with the Social Democratic party. Alluding to M. Laval's coming visit to the United States, he declared somewhat cryptically that, if America took sides with France, white peoples in that continent would be divided into two groups.

9. He next proceeded to read the 'Resolution of the National Opposition', the gist of which was as follows:—

'For years the National Opposition had been issuing vain warnings against the inaction of Governments in face of the Marxist reign of terror, the spread of Bolshevik doctrines and the disruptive influence of class warfare; against the deliberate exclusion of national forces from influence in the Government of the country, against a policy which went even beyond Versailles in the direction of the political, economic and military enslavement of Germany. Determined to save the country from bolshevism and from the whirlpool of economic bankruptcy, they declared their readiness to assume the responsibility of Government in the Reich and in Prussia. They would reject no genuine offer of co-operation. They demanded the immediate resignation of the Brüning and Braun Cabinets, and the immediate dissolution of the Parliaments of the Reich and Prussia. The forces of the National Opposition were ready, in the event of disturbances, to protect life and property, but not to defend the present system or the present Government. They demanded the restoration of Germany's defence forces and equality of armaments ("Wehrhoheit"). They implored

President von Hindenburg, whom they had elected to office, to comply with the fervent wishes of millions of patriotic Germans and to save the situation at the eleventh hour by summoning a National Government, a Government which would initiate a new policy.'

10. Hitler, who spoke next, had nothing new to say. His remarks amounted to little more than a repetition of the address which he had already delivered to his own followers in the forenoon. The Stahlhelm leaders made the usual demand for equality of armaments with other peoples. In an unusually moderate speech Colonel Düsterberg dwelt on the impotence of the League of Nations, which had been shown afresh by the invasion of Manchuria and the violation of Chinese territory. The Stahlhelm did not desire a new war. They, too, wanted peace and understanding, but Germany, as a great nation, should be allowed to take those measures which she deemed necessary for the defence of the country. 'We are of opinion that equality of treatment should be secured by the German Government before the conference at Geneva, otherwise the failure of the conference will be imputed to Germany.' Finally, the meeting concluded with Dr. Schacht's sensational speech, which was the subject of my despatch No. 799¹ of the 12th instant.

11. A resolution was then drawn up by the parliamentary representatives of the 'Right Opposition', in which it was agreed that, during the coming session, four aims were to be pursued, namely, the overthrow of the Government, the election of a new Reichstag, the revocation of the Emergency Decrees and the suspension of the Reich police grants to Prussia.

12. The press of the Left parties, and more particularly the Social Democratic press, insist that the Harzburg demonstration is connected in some way with a scheme to inflate the currency. Prior to the meeting, the democratic 'Frankfurter Zeitung' appears to have had wind of Dr. Schacht's intention to make an alarmist pronouncement. At any rate, in its morning issue of the 11th it asserted that industrialist circles, if they could not win over Dr. Brüning to inflation, were disposed to bring about a fresh banking crisis by a deliberate display of pessimism, and in that way to engineer a collapse of the mark. The Centre press professes to share the view that the Hitlerites and Nationalists have joined forces 'for the purpose of liquidating, by means of fresh inflation, an economic epoch which was not marked by wise or moderate conduct of business'. 'Germania', in its issue this morning, also asks Herr Hitler to put an end to the misgivings as to his intentions and to answer a plain question: 'Has he, or has he not, entered into a compromise with the avowed enemies of the National Socialist movement, the champions of capital and the great landowners?' The Nationalist press, on the other hand, makes the most of the appearance of unity, but it is evident from leading articles this morning that none of the component parts of the new Opposition is satisfied that the turning-point has been reached on the way to a new political epoch. The 'Frankfurter Zeitung', unlike the rest of the democratic press, takes a pessi-

¹ Not printed. Dr. Schacht alleged that German foreign indebtedness was higher than the estimate put forward in the Basle report and that the German Government and the Reichsbank were deliberately concealing the true position.

mistic view, and argues that, though only a semblance of unity was achieved at the Harzburg meeting, that semblance may suffice to turn the scales against the Brüning Cabinet. Its gloomy forebodings are shared by some other moderate newspapers, but the 'Deutsche Allgemeine Zeitung', an organ of the moderate Right associated with the heavy industries, has veered round to the support of the new Brüning Cabinet in an unexpected way. It points out the dangers of a fresh fall in the mark, a development which would overtax the patience of the German people and lead to Bolshevik outbreaks.

I have, &c.

HORACE RUMBOLD

CHAPTER V

Visit of M. Laval to Washington: correspondence and discussions with regard to the appointment of a special advisory committee under the Young plan: proposal for an inter-governmental conference on reparation payments: National Socialist activities in Germany. (October 17–December 20, 1931.)

No. 275

Mr. Pattenon (Geneva) to Sir R. Vansittart (Received October 17)

No. 139 L.N. Telegraphic [C 7861/172/62]

GENEVA, October 17, 1931

Following addressed to Washington, No. 4 of October 17:—

‘Following from Secretary of State:—

‘I think it may be useful for you to have some appreciation of the situation as I find it here as a result of contact with the representatives of the Powers assembled to consider the China–Japanese dispute.

‘Leaving aside the important question under discussion, fateful in its consequences for the welfare of the League as an instrument for consolidation of peace and co-operation between nations, I find an atmosphere of hopeful anticipation that some exit may be on the way to being found from the [? difficulties]¹ with which the nations of the continent are universally afflicted.

‘There can be no question that this renewed spirit of hope is due in the main to anticipations aroused by the prospective meeting between President Hoover and M. Laval. All attention, whether in Germany or elsewhere, is concentrated on Washington, and it is not too much to say that on the issue of the conversations between the French and United States statesmen will depend whether Europe is again to be plunged into a state of despondency which will seriously aggravate conditions in every direction, or whether Europe, being given some lead, will once again set herself to work to restore some measure of stabilisation.

‘I explained to you that my policy was to await the result of the discussion between the President and M. Laval. That is an attitude to which I wish to adhere for the time being as best calculated to advance the policy which I have in view. At the same time I would wish you to realise that all that in my view and from my observations I think I should be right in saying, in view of

¹ The text here is uncertain.

opinion generally on the Continent, now depends on what the President and M. Laval may be able to announce as a result of their exchange of views, and I would hope that without any appearance of intervention you will lose no opportunity of emphasising the situation as I see it, so that neither the Americans nor the French may be under any illusion as to their responsibilities. It is of the utmost importance that they should be able to indicate not only that they are willing to co-operate in finding a solution, but have some programme in view whereby that solution can be achieved.

If such is the result of the meeting in Washington it is unnecessary to say that I shall be ready to co-operate to the maximum of my ability to ensure the realisation of the common aim.

I have just seen Mr. Stimson's declaration¹ which I regard as exactly calculated to meet the situation. It is a statesman-like invitation to the French to lay all their cards on the table, to which I hope they will respond.'

¹ Mr. Stimson stated on October 14 that the United States Government had 'no intention of imposing any programme upon France or any other nation', and that they were anxious to give M. Laval 'the utmost freedom of selection in the topics he may care to discuss with the President'.

No. 276

Lord Tyrrell (Paris) to Sir R. Lindsay (Washington)

Unnumbered¹ Telegram: by bag [C 7862/172/62]

PARIS, October 21, 1931

Lord Reading's telegram No. 4² of October 17 tempts me to let you have, for what it may be worth, my appreciation of M. Laval's attitude on the occasion of his visit to Washington.

2. He is coming out sincerely desirous of putting his visit to the best use not only for France but for Europe. Apart from the vital matter of Franco-American co-operation to meet the financial crisis, he wishes to discuss three important questions.

3. He believes bolshevism to constitute a menace to our civilisation unless the present chaotic state of international production and marketing (industrial and agricultural) is remedied. This conviction is the basis of his policy towards Germany. One outcome of it is the establishment of the Franco-German Committee, the task of which is to organise the industrial production and marketing of the two countries as a first step towards the essential co-ordination of the economic activity of Europe as a whole. Another manifestation of this conviction is his desire to turn Germany from Russia which has, I understand, already met with some response in Berlin.

4. M. Laval admits privately that debts and reparations, with the exception of the unconditional annuity, are things of the past, which may be useful

¹ This telegram was repeated to the Foreign Office, where it was received on October 22.

² No. 275.

assets in a negotiation, but the payment of which is no longer practical politics. He would prefer to further moratoria some alternative tending towards finality for Europe and America. Though unable to relinquish the unconditional annuity, he would take it in kind instead of in cash.

5. He cannot forget the security of France, which alone can enable him to reduce armaments. For this purpose he has been advised to ask Hoover for an American contribution in the shape of a consultative pact on the lines of the Pacific Pact and an implementing of the Kellogg Pact by a modification of the American attitude towards neutrals in war; in other words, he will suggest that America should allow us not only to shout 'Stop, thief!' but also to catch him. He favours budgetary reductions of military expenditure as the most practical way of obtaining reduction of armaments.

6. It is important that the United States should realise his parliamentary position, which is by no means secure, and of the difficulty, of which he is thoroughly aware. His Government can be upset by a change-over of 30 votes in the Chamber; and he has to reckon with the jealousy of some of his colleagues, who put him in office as a caretaker and do not relish his success in implanting himself so strongly in the estimation of the public.

7. For these reasons he is unable and is determined not to enter into any binding engagements at Washington, though he is perfectly willing to work out the lines on which Franco-American co-operation should run. He wishes to return and to be able to say to his colleagues and to the Chamber that their hands are free, but that if they desire to secure American co-operation in the rebuilding of Europe, and in conformity with the due safeguarding of French vital interests, he has discussed the conditions on which it can be obtained. Any reluctance therefore on his part to enter into binding engagements at Washington will be due to reasons of internal policy, and every allowance should be made under this head if success of the visit be desired at your end.

8. As French opinion feels that the two countries must pull together as the only possible saviours of the gold standard and, by implication, of the franc, there is a general and genuine desire here for co-operation with America. Nobody shares this feeling more than M. Laval himself, provided there is in the United States proper appreciation of French requirements as regards security. The whole outlook of French policy since 1919 has been deeply influenced, if not determined, by the failure of the United States Government to implement the undertaking given by the United States President to come into the guarantee treaty. It must be remembered, too, that French opinion was much irritated by the Hoover action in June, taken without prior consultation with the Power who was chiefly interested. It is worth adding that the economic interests of the United States in Europe have enormously developed during the last twelve years. Their European investments have in this period risen from 10 to about 125 milliards of francs.

9. M. Laval, who is temperamentally inclined to frank discussion without preconceived ideas or prejudices, has been strongly urged to lay all his own cards on the table from the start, and to invite corresponding frankness from the American side.

Sir R. Lindsay (Washington) to the Marquess of Reading
(Received October 24)

No. 659 Telegraphic [C 7906/172/62]

WASHINGTON, October 23, 1931

Telegram to English press has probably prepared you not to expect much concrete result from visit of French Prime Minister, and I regret that I can only express concurrence in this view.

Secretary of State is far from optimistic.

When I said to Mr. Castle that eyes of all Europe were now turned with hope to Washington, his answer was that for that very reason he doubted wisdom of visit, and only two days ago President, talking to well-known pacifist about French Prime Minister, said bluntly: 'What has he come for, anyway?'

My impression is that Administration is under no illusions as to part United States ought to play in the solution of complex world difficulties.

In the country at large events of the last three months have, I think, acted as intensive form of education as regards inter-Government [¹? responsibility] for debts, and public opinion, I should think, is virtually prepared for further steps. But as to America taking any part in promoting security in Europe, I think the public still quite unready for anything of the sort. Overriding all this is the attitude of purely political and Congress circles, and as to this my view is that no progress is to be registered, perhaps even retrogression, on the question both of debts and of security; especially of the latter.

President will doubtless secure Congress ratification of moratorium in due course, but in view of his well-known timidity there is little expectation that he means to press strongly in the immediate future of [*sic*: ? for]¹ further measures, and he cannot a second time sweep politicians off their feet as he did last June.

As to discussions, possibly some community of view as to use of gold may be discovered, proclaimed and made the most of. On other points there will be full exploration, and we may hope that perhaps President may learn to appreciate something of French attitude and get over somehow his anti-French prejudice. That would be a great gain, and its achievement depends on French Prime Minister's skill and tact.

I am sure he will get all possible help from Secretary of State.

¹ The text here is uncertain.

The Marquess of Reading to Sir H. Rumbold (Berlin)

No. 1138 [C 7907/9/18]

Sir,

FOREIGN OFFICE, October 26, 1931

With reference to my telegram No. 214¹ of the 24th October, I transmit to your Excellency herewith a copy of a memorandum dealing with the financial

¹ Not printed. This telegram summarised the memorandum here printed.

situation of Germany left by the German Ambassador with Sir Robert Vansittart on the 23rd October.

2. In handing this memorandum to Sir R. Vansittart, Freiherr von Neurath stated that a similar memorandum was being sent to the German representatives in the other interested capitals.

I am, &c.

READING

ENCLOSURE IN No. 278

Aide-mémoire

The figures concerning German foreign indebtedness submitted to the Basle Committee were based on estimates. Meanwhile an exact statistical enquiry regarding German foreign indebtedness has been made, based on regulations providing for the compulsory registration of all foreign debts. Though the result of this enquiry is not yet available in every detail, it can already now be confidently stated that the German foreign indebtedness is considerably higher than it was supposed to be at the time when the report of the Committee of Experts in Basle, the so-called Wiggin-Layton report, was drafted. Including foreign investments in Germany (real estate and securities), which amount to 4,500 or 5,000 millions of marks, the entire foreign indebtedness of Germany reaches the figure of 28,000 to 29,000 million marks. Of this figure, 12,000 millions are short-term and 11,500 millions long-term obligations. This figure exceeds the figures of the Wiggin-Layton report by 5,000 to 5,500 million marks as far as the entire foreign indebtedness is concerned and by 4,000 million marks as regards short-term indebtedness.

It is out of the question that Germany should, at the expiration of the standstill agreement on the 29th February, 1932, be able to repay the short-term debts or even a considerable part thereof. Even now it proves extremely difficult to carry out the standstill agreement to the letter. The amount of gold and foreign exchange held by the Reichsbank, according to its latest weekly statement, is 1,924 million marks, compared with a note circulation of 4,527 million marks. The note cover amounts therefore to 28.6 per cent. only, whereas the legal minimum cover should be 40 per cent. Taking into account the short-term emergency obligations of the Reichsbank to the average extent of 150 million dollars, the cover, as shown by the status of the 15th October, is reduced to 14.7 per cent. A further reduction of the note cover is bound to create further unrest.

As a result of the concessions which Germany was obliged to make in the standstill agreements with regard to repayments during the six months of their operation, especially the repayment of reichsmark balances and the payments for forward transactions in foreign exchange, the Reichsbank even at present is suffering continuous considerable withdrawals of foreign exchange. Since the middle of July the repayment of credits has, in spite of the standstill agreement, by far exceeded the sum of 500 million marks. In addition, the interest service of both the short-term and long-term debts and

the profits derived from foreign investments have to be met as they fall due out of the Reichsbank's holdings of foreign exchange.

On the other hand, the present abnormal activity of the German balance of trade does not result in a corresponding influx of foreign exchange, as, owing to the temporary impossibility of financing exports and imports by means of reimbursement credits in the present transitory period of three to six months, foreign exchange from exports only partly enters the country and has immediately to be used again to pay for current imports. The Reichsbank is employing the most drastic means to enforce an adequate delivery of foreign exchange. No credits are granted and no bills discounted of firms who do not follow the regulations concerning transactions in foreign exchange.

LONDON, *October 23, 1931*

No. 279

Sir H. Rumbold (Berlin) to the Marquess of Reading

(Received October 26)

No. 829 [C 7924/11/18]

My Lord,

BERLIN, *October 23, 1931*

Brunswick, as Your Lordship will no doubt have observed, is quickly becoming an important centre of National Socialist activity, this being, of course, due to the fact that it is the only State in which the Nazis are in office, and almost the only one in which their uniform may be worn in public, and in which they are allowed to hold military parades and other public functions.

2. The meeting of the National Opposition at Harzburg from the 10th to the 12th of October was followed last week-end (17th to 19th October) by a National Socialist rally on a large scale in the city of Brunswick itself. Over 70,000 Nazis, conveyed by 38 special trains, and 5,000 motor lorries, entered Brunswick on the Saturday and remained over Sunday. The programme included numerous parades, a torchlight tattoo, a march past, and, of course, several speeches by the leader of the movement, Adolf Hitler himself. At the parade held on Sunday morning Herr Hitler, in presenting colours to various Nazi storm battalions, said he thought that these would be the last banners to be presented before the final victory of the movement. He reminded his hearers that it was above all necessary for them to keep their heads. If they did not lose their nerve at the last moment no power on earth could prevent them from winning through. Hitler's insistence on the necessity for calmness on the part of his followers has suggested in some quarters that he is in reality fearful of disunion in the ranks. Undoubtedly Dr. Brüning's victory in the Reichstag was a great disappointment to thousands of the Nazi rank and file, who, despite various warnings uttered by their leaders at Harzburg and elsewhere, had hoped for a slashing victory. Other National Socialists are inclined to sulk at having to cooperate with the Nationalists and Stahlhelmen, who belong on the whole to a different social stratum and have little in common with them save hatred of the Left.

3. As might have been anticipated, the Brunswick celebrations were marred

by numerous clashes between the 'Hitler-Jungen' and their political opponents. In the course of these disturbances two persons were killed and 50 or 60 injured, most of them only slightly. The Nazis, as usual, placed the entire blame on their opponents, and it is quite possible that the incidents were largely due to Communist provocation. On the other hand, the State authorities in permitting a rally on this scale to take place at all knew perfectly well that they were offering a gratuitous provocation to the extremists of the Left; and such papers as the 'Berliner Tageblatt' and the 'Vossische Zeitung' place the responsibility for all that occurred upon the Government. It should be remembered, however, that happenings of this kind are by no means unusual in present day Germany, and that casualties as serious or even more so have frequently resulted within the last few years from brawls between Communists, Reichsbanner, and Nazis in Berlin, Breslau, Hamburg and other big towns.

4. General Groener, who, as Your Lordship is aware, now combines the portfolios of the Interior and of Defence, lost no time in demanding reports on the disturbances from the various Brunswick authorities. One of the reports, which has already been published, was from the officer commanding the local Reichswehr garrison, who maintained that public order had not been seriously endangered, and that as the police had the situation well in hand there was no need to call out the military. Whether or no General Groener will be satisfied with this view, which hardly takes sufficient account of the facts, remains to be seen. The reports from the other Brunswick authorities on the subject do not yet appear to have been received, or at any rate published, by the Ministry of the Interior.

I have, &c.

HORACE RUMBOLD

No. 280

Sir R. Lindsay (Washington) to the Marquess of Reading
(Received October 27)

No. 661 *Telegraphic* [C 7967/172/62]

My telegram No. 659.¹

WASHINGTON, October 26, 1931

I assume text of joint Franco-American communiqué² has been telegraphed to the press. Secretary of State to-day gave me the following further details of conversations with the French Prime Minister.

On disarmament the well-known French attitude was quite unbending and

¹ No. 277.

² This communiqué was issued jointly by Mr. Hoover and M. Laval on October 25. The reference to inter-governmental debts was as follows: 'In so far as inter-governmental obligations are concerned, we recognize that prior to the expiration of the Hoover year of postponement some agreement regarding them may be necessary covering the period of business depression, as to the terms and conditions of which the two Governments make all reservations. The initiative in this matter should be taken at an early date by the European Powers principally concerned within the framework of the agreements existing prior to July 1, 1931.'

as United States held out no prospect whatever of any concession on this side as regards contributing to European security no progress on the general question was made.

On naval disarmament Secretary of State had pressed the French Prime Minister very strongly to come to terms with the Italian Government. He said he had closely followed the controversy and it was his considered opinion that as between France and Italy it was the former who was in the wrong. French Prime Minister was not familiar with the details of the question and sheltered himself behind the absolutely uncompromising attitude of the Minister of Marine. Mr. Stimson urged him to overcome this opposition saying that it was a case where Government and not any single Ministry must take responsibility of a decision and M. Laval promised to look into the matter on his return. Secretary of State thinks as regards this question he has created some impression.

The President and the Secretary of State had urged M. Laval to do something about the frontiers of Central Europe. While making it clear that the United States Government was not departing from its traditional attitude of aloofness, they maintained that political unrest in those regions was at the root of all political and financial difficulties of the moment. No serious body of Germans called the Western frontier in question and none acquiesce in the Eastern frontier. Latter was indefensible. M. Laval repeated to the Secretary of State the admission that he had made to him in July that the Polish corridor was a monstrosity but he had since then made enquiries at Warsaw and the Polish Government had said they would rather have war than agree to any modification of them. M. Laval was pressed to do nothing which might exacerbate the situation and the Secretary of State had proposed one or two minor measures which might relieve it but he did not disclose their nature to me.

As regards debts and reparations, both agreed that resumption of payments at the end of the moratorium year was out of the question and that assistance to Germany was necessary. Perhaps neither would maintain that the Young Plan was still alive but both preferred that any action taken should be in the form Mr. Stimson¹ prescribed therein. It was made clear to M. Laval that if the initiative was [? taken on the subject acceptable to Mr. Stimson] United States Government would be prepared to make its necessary contribution. Both sides were agreed that action should be taken as soon as possible.

M. Laval told German Ambassador last night that when he returned to Paris he would consult his Cabinet and if they agreed he would send to German Ambassador in Paris invitation to German Government to take action under the Young Plan forthwith.

French attitude as regards unconditional annuities is unchanged and is covered in a reservation contained in communiqué.

¹ The text here and in the following sentence is corrupt. The words 'Mr. Stimson' appear to be an error. The sense appears to be that, if, as Mr. Stimson suggested, the initiative were taken by Germany under the terms of the Young Plan, the United States would 'make its necessary contribution', i.e. in the matter of war debts.

As regards gold it was agreed not only that both parties would [¹? maintain]¹ gold standard but that they should afford any possible assistance to other Governments who might wish to return to it. A sentence to this effect was in the original draft communiqué but was cut out as it might be regarded as tactless.

Secretary of State told me that establishment of personal contact had been very satisfactory in all respects and that the French Prime Minister had created a most favourable impression. But in reply to a question by me, he added that President had been made very impatient especially by French attitude on disarmament.

¹ The text here is uncertain.

No. 281

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 27)

No. 218 Telegraphic [C 7975/172/62]

French Prime Minister's visit to Washington. BERLIN, October 27, 1931

The apparently negative result of the Franco-American conversations has naturally caused disappointment here although Secretary of State tells me the Press Department had done its best to warn public opinion not to expect too much from those conversations.

Referring to paragraph in communiqué which states, in connexion with obligations existing between the Governments, that some convention will be necessary before the expiration of Mr. Hoover's moratorium and that European Powers chiefly concerned are expected to take initiative in the very near future, Secretary of State said that Germans had at once interpreted this to mean that Germany was to take initiative. His first impression was however that experts committee provided for under Young Plan was not appropriate machinery for dealing with a prolongation of Mr. Hoover's moratorium. Wiggin Report was only two months old and had already dealt with Germany's capacity for payment.

No. 282

Sir H. Rumbold (Berlin) to the Marquess of Reading
(Received October 28)

No. 219 Telegraphic [C 7986/172/62]

My telegram No. 218.¹

BERLIN, October 27, 1931

I now learn that in reply to specific enquiries by the German Ambassador in Washington it was made clear both by M. Laval and Mr. Stimson that

¹ No. 281.

Germany would be expected to invoke special Advisory Committee in accordance with Article 119 of the Young Plan. An intimation to this effect will probably be conveyed to the German Ambassador in Paris as soon as M. Laval has discussed his visit with his Cabinet. German Government in deciding their attitude would be much assisted if they could ascertain the views of His Majesty's Government and enquiries for this purpose may be expected from the German Embassy in London.

When above information was imparted disappointment was again expressed that further investigation of German financial position should be thought necessary. Although I have not as yet said so, it seems to me however that enormous discrepancies between present German statements and those so recently made to the Basle Committee would afford ample justification for any further enquiries which may be thought desirable.

No. 283

Sir H. Rumbold (Berlin) to the Marquess of Reading

(Received November 3)

No. 851 [C 8114/172/62]

BERLIN, October 28, 1931

My Lord,

I have the honour to report that the Italian Ambassador came to see me this morning and gave me an account of Signor Grandi's visit to Berlin.¹ This visit had gone off admirably, and both the Italians and Germans were pleased. Signor Grandi had, in particular, got on to very good terms with Dr. Brüning; in fact, on the second day of the visit, when an excursion to Potsdam had been arranged, the Chancellor and Signor Grandi had left the rest of the party early in the afternoon and had returned together to Berlin, where they had had a conversation entirely alone lasting until 6.30 in the afternoon. In order that the principal political parties in Germany should be represented at the dinner given in honour of Signor Grandi, the Chancellor had invited the Nazi and Nationalist Reichstag leaders, Dr. Frick and Dr. Oberföhring. He had also invited Dr. Breitscheid, but all three had excused themselves for inability to accept Dr. Brüning's invitation.

2. My Italian colleague confirmed what Herr von Bülow had already told me, namely, that economic matters had hardly been discussed. The question of the increase of 15 per cent. in the Italian tariff will be considered between the Italian experts, who are now in Paris, but who are due to return to Rome immediately, and German experts who will be sent to Rome. Signor Orsini Baroni explained that the 15 per cent. customs surtax in Italy was designed more as a fiscal measure than as a measure of protection, since the Italians themselves would suffer from this increase. He went on to say that the disarmament question had scarcely been touched on, for it was obvious to the

¹ Signor Grandi visited Berlin on October 25-6. Signor Grandi's acceptance of an invitation to Washington was announced on October 11.

Italians that the economic and financial situation was engrossing the German Government to the exclusion of everything else. In connexion with the disarmament question, my Italian colleague told me in confidence that Signor Grandi hoped that it might still be possible for Mr. Henderson to preside over the conference. Signor Grandi did not wish for an American president on any account, for he was of the opinion that Americans really did not as a rule understand the conditions prevailing in Europe. Discussions between the Germans and Italians had centred round financial questions, such as reparations and war debts.

3. The Italian Ambassador went on to say that Signor Mussolini's policy was well-known. In Signor Mussolini's opinion the equilibrium in Europe at the present time was upset, one Power, whom he need not name, being predominant on the Continent. It was essential, in Signor Mussolini's view, to restore this equilibrium. I enquired at this point how, assuming that this thesis was correct, it was proposed to restore equilibrium. He replied that the pound must be stabilised, and the Americans induced to renew their interest in European affairs. The negative result of M. Laval's visit to Washington had been a real shock to Signor Grandi. The Italians considered that there had been a step backwards in the relations of the United States to Europe. For this reason it was a very good thing that Signor Grandi was shortly going to Washington. His visit would be a good antidote to that of M. Laval.

4. I pointed out that it would be undesirable, and even dangerous, to attempt to form anything in the nature of a *bloc* against France. He replied that there was no such idea. If he might make a comparison, M. Laval had gone to Washington as the representative of a rich nation. Signor Grandi was going there as the representative of the proletariat, meaning some of the poorer countries of Europe. Signor Grandi had seen for himself the conditions in Germany, and would be able to give his impression to President Hoover (please see in this connexion my telegram No. 217¹ of the 27th October).

5. Turning to the communiqué issued after the Franco-American conversations at Washington, my Italian colleague said that he understood that the Germans were not at all anxious to take the initiative in suggesting that the Committee of Experts provided for under the Young plan should meet at Basle. The Germans would want, in the first place, to ascertain what London and Rome thought of the suggestion. Secondly, their capacity for payment had only recently been investigated by the Wiggin-Layton Committee. An investigation by the Experts' Committee would take time, and time was of the essence of the problem. There was really no time to be lost. I then gave my Italian colleague an account of a conversation which I had recently had with Dr. Vocke, representing the Reichsbank, on the subject of the German short-term credits, and pointed out that the discrepancy in the figures now given by the German Government and those produced to the Wiggin-Layton

¹ Not printed. In this telegram Sir H. Rumbold reported that, according to Herr von Bülow, the German Government had treated 'with some reserve' Signor Grandi's suggestion that he could interpret to Mr. Hoover the German views regarding disarmament, reparations, and war debts.

Committee would of itself seem to justify the setting up of the Experts' Committee at Basle. I said that either the Germans had understated the case to the Wiggin-Layton Committee or were overstating it now. In either event, it was very irritating to deal with people who did not put all their cards on the table. My Italian colleague thoroughly agreed with me.

6. The Italian Ambassador then referred to the results of the elections¹ in the United Kingdom, and said that a strong British Government was essential, not alone at home, but also for Europe.

7. In the course of a subsequent conversation which I had with Herr von Bülow, the latter told me that the Germans had tried to impress on Signor Grandi the fact that many of the economic measures recently taken by various Governments made for the contraction of credit and impeded the natural flow of commerce. It was absolutely necessary to devise measures to set trade going again and thereby restore confidence. The Germans had, I understood from him, alluded to the plight of Hungary and of Austria, and had asked Signor Grandi what he knew about conditions in Czechoslovakia. But they had found Signor Grandi somewhat hazy on economic affairs, and he had admitted that he was not well informed as to conditions in Czechoslovakia. Herr von Bülow added that Signor Grandi conceived his forthcoming journey to Washington in the light of a mission as an Ambassador from Europe.

I have, &c.

HORACE RUMBOLD

¹ A General Election in Great Britain, which resulted in a victory for the National Government, took place on October 27.

No. 284

Sir H. Rumbold (Berlin) to the Marquess of Reading

(Received November 3)

No. 867 [C 8130/172/62]

BERLIN, October 30, 1931

My Lord,

I have the honour to report that I asked the Chancellor to receive me to-day in order to get his reactions to the recent visit of M. Laval to Washington, as well as to the results of the elections in England. Before seeing Dr. Brüning, I had a short interview with Herr von Bülow, who told me that the Chancellor would speak to me about the situation in Germany, the Standstill Agreement and the question of the steps to be taken by Germany in the matter of reparations, as the result of the recent Franco-American communiqué.

2. The Chancellor began by telling me that the German Government would, in the course of next week, submit a proposal as regards the repayment of the short-term credits covered by the Standstill Agreement, as well as those short-term credits which had been discovered to exist since the Wiggin-Layton Report had been drawn up. At the time that report had been drawn up the information at the disposal of the German Government was insufficient

to include all the short-term credits outstanding. It had, in fact, been extremely difficult to get at the exact amount of these short-term credits. This fact explained the discrepancy between the figures under this head as given in the Wiggin-Layton Report and those contained in the memorandum which the German representatives in London, Rome, Paris and Washington had recently been instructed to communicate to the respective Foreign Offices in those capitals. Dr. Brüning thought that those figures were now both complete and accurate.

3. The Chancellor went on to indicate that the Reich proposed to guarantee the repayment over a term of years of those short-term credits, but it would manifestly be impossible for the German Government to pay reparations as well. I enquired whether Dr. Brüning meant that the German Government would not even pay the unconditional annuities, to which he replied that they would be unable to do so. The German Government would, however, repay the sum provided for under the Marks Agreement with Belgium and would also meet the mixed claims under the agreement with the United States. Turning to figures in illustration of the yearly amounts which the German Government would have to provide for the gradual repayment with interest of the short-term credits as well as for the provision of interest on long-term credits, he estimated that Germany would have to make a yearly payment of about 80 to 100 millions sterling on a gold basis, which was roughly equivalent to the German payments which would have normally been made under the Young plan. In the years in which the long-term credits became due for repayment, the payments would be even heavier. It would be seen from the foregoing that it would be quite out of the power of the German Government to pay anything on account of reparations. The sums due by the German Government on account of loans and short- and long-term credits amounted to some 28 milliards of marks, *i.e.*, 1,400 million sterling at par.

4. The Chancellor expressed the view that the committee which might be appointed to study the proposals which the German Government would make with regard to the repayment of short-term credits should not be composed solely of bankers. Experts would have to be attached to that committee. I said that I had heard the suggestion that such a committee might sit at Basle concurrently with the Experts' Committee provided for under the Young plan. It was clear that the German obligations as regards short-term credits and reparations had come to be almost interrelated.

5. The Chancellor then reverted to the reparations question. The German Government were still in the dark as to what had really taken place at Washington. They realised that the allusion in the Franco-American communiqué to the European Powers taking the initiative in the matter of reparations really meant that Germany was to take this initiative and that the intention was that she should take the necessary steps to get the Experts' Committee provided for under the Young plan to meet at Basle. It was clear that the French wished to treat the reparations question on the basis of the Young plan and to secure that any alleviations in the payment of reparations

should be granted within the framework of that plan. One expression had struck the Germans in the communiqué; that was that the French and Americans had expressed the view that the initiative should be taken immediately. I suggested to the Chancellor that this probably meant that Mr. Hoover would wish to be acquainted with the recommendations of the Experts' Committee under the Young plan before Congress met, in order to be in a position to submit proposals to Congress.

6. Dr. Brüning remarked that he did not think that the Experts' Committee was the proper machinery for dealing with the reopening of the whole of the reparations question. In the first place their powers were limited. They could only recommend the suspension of the payment of the conditional annuities. They could not touch the unconditional annuities. Before taking any steps the German Government would wish to be certain either that the powers of the committee would be extended, or that the whole matter would be handled in a different way, *i.e.*, by means of a conference of the Powers interested. They must be sure beforehand where their initiative was going to lead them. The German Government would also wish to have the views of His Majesty's Government and the Italian Government with regard to the opportuneness of the step foreshadowed in the Franco-American communiqué. For the moment they would do nothing until M. Laval had spoken to the German Ambassador in Paris. The latter had been sent for and would reach Berlin to-day. He would then be placed in possession of the views of his Government. The Chancellor had no intention of making a leap in the dark. He had instructed Baron Neurath, through Count Bernstorff, who left for London yesterday, to call at the Foreign Office in connexion with this matter as soon as the new Government in England had been constituted.

I have, &c.

HORACE RUMBOLD

No. 285

Sir H. Rumbold (Berlin) to the Marquess of Reading

(Received November 3)

No. 868 [C 8131/11/18]

BERLIN, October 30, 1931

My Lord,

I asked the Chancellor to-day what he thought of the situation in Germany at the present moment.

2. He replied that, economically, the devaluation of the pound had complicated matters for Germany. English coal, for instance, was driving out German coal, and it would be difficult for German trade to meet British competition.

3. Turning to the political situation, he said that matters would be stable until February. There would be elections in Hesse in the middle of November, and he anticipated a large increase in the National Socialist vote. In fact the Nazis were steadily increasing in numbers. This was a manifestation of

despair at and discontent with the disappointments of the past and present conditions. It was a movement of youth, and it was a noteworthy fact that the Social Democrats were not gaining any young recruits. I enquired whether, in his view, Hitler had put any water in his wine of late. He said he wished he could think so.

4. The Chancellor then turned to the result of the elections in England, which he said afforded an unparalleled example of the way in which a nation had pulled itself together. He was glad that a strong Government would enable England to play a proper part again in international affairs. On the other hand, as I knew, there was a good deal of apprehension in Germany at the possibility of the introduction of tariffs.

5. This led him on to discuss the situation in Hungary and in the Balkan States. The Hungarian situation was very serious. One of the great banks which had been bolstered up for some time past had failed a few days ago. If the markets in Central and South Eastern Europe collapsed it would be extremely difficult to revive them again. I asked him what his remedy would be, and he replied that it would be necessary to float an international loan to help the countries in question, but the money must not be used for armament purposes and its application must be properly controlled. France was the only country which could provide the necessary credits and there was the danger that, if she stepped into the breach, she might try to create a customs union with Czechoslovakia, Austria, Hungary and Yugoslavia, to the detriment of Germany and England. Another difficulty was, of course, that whilst the French banks might express willingness to grant credits, they could not force the French nationals to subscribe to loans for foreign purposes. I said that the confidence of the nationals of different countries in their own banks and Governments was a pre-condition of the confidence of nations in one another.

I have, &c.

HORACE RUMBOLD

No. 286

Communication from Herr von Bülow to Sir H. Rumbold¹

[C 8172/172/62]

(Translation)

Germany's first care is the solving of the 'Stillstand' Agreement. According to the 'Stillstand' Agreement concluded in August 1931 and signed by the last [*sic*] parties concerned in September, the foreign creditors came to an agreement with their German debtors that a part of their mark credits should be immediately released, whilst the remainder should be released little by little during the period of validity of the treaty. On the other hand currency debtors receive, with certain exceptions, a moratorium. Germany has, up to

¹ This communication was sent by Herr von Bülow to Sir H. Rumbold on October 31 at the request of the Chancellor, and as an amplification of certain points made by the latter in his conversation of October 30 with Sir H. Rumbold (No. 284).

the present, faithfully carried out the 'Stillstand' Agreement. As a result of the exceptions to the 'Stillstand' arrangement, especially as regards Reichsmark credits, there have been since the agreement withdrawals which have exceeded the sum of RM. one milliard. The 'Stillstand' Agreement expires at the end of February 1932. It must be renewed because, in the event of an inorganic liquidation of Germany's short-term credits, foreign creditors, as well as Germany's industry and currency would suffer grievous damage. A re-establishment of confidence depends greatly upon the nature and duration of the new 'Stillstand' Agreement to be concluded; these will, moreover, decide the question as to whether a new serious deterioration of the crisis can be avoided.

As regards the Reparation problem, we know, up till now, only that France and the United States have agreed that the question should be reopened, through German initiative, by means of the summoning of the Special Committee provided for under the Young Plan. It is, however, clear that this Special Committee is not competent to deal with the present situation. Its powers are only sufficient to enable it to make fresh proposals as regards the conditional annuities. The committee is not competent to discuss the question of the unconditional annuities.

Up to the present we do not know how France and America intend to make allowance for the defective powers of the Special Committee. It would appear to be a question of either extending its competence, or setting up a commission with different powers, or rather of summoning a conference of the six Young Plan Powers. There may also be the idea of first allowing the Special Committee to work within the framework of its powers as laid down by the Young Plan, and only later of extending its competence or of completing it by means of a new committee or conference.

The German Government will in any case, be unable to undertake anything so long as they do not know how it is intended to meet the problem of the defective competence of the Special Committee as provided for under the Young Plan.

No. 287

Lord Tyrrell (Paris) to the Marquess of Reading
(Received November 5)

No. 12 Saving: Telegraphic [C 8195/172/62]

PARIS, November 4, 1931

Conversations took place at the Ministry of the Interior last evening between the President of the Council, the Ministers for Foreign Affairs and Finance on the one hand, and the German Ambassador on the other; and the official communiqué issued after the meeting states that 'M. Laval informed M. von Hoesch of his conversations with President Hoover respecting the substitution of the normal régime of the Young plan for a moratorium which followed upon the proposal made by President Hoover in June last'.

2. Though the conversation lasted over two hours, it does not appear to have been at all conclusive, and it will apparently be continued in the next day or two. According to information given me at the Ministry for Foreign Affairs, M. Laval seems to have urged Germany to set in motion the machinery under which she would apply for a moratorium under the Young plan, and to ask for the establishment of a consultative committee to report on the present capacity of payment of the Reich. According to the Ministry for Foreign Affairs, it was definitely agreed at Washington that this would be the procedure adopted. According to the information given me by the German Embassy, M. von Hoesch demurred to this procedure, and claimed that the powers of the consultative committee were not wide enough to deal with the present situation in Germany. The German Embassy also tells me that the French representatives displayed comparatively little interest in the question of the short-term credits; and there seems to be considerable indignation in certain influential quarters here at the cavalier manner in which the Germans appear to be disposed to treat reparations.

3. I hear that the feeling in the lobbies, where the Deputies are beginning to reassemble, is very stiff against anything resembling further lending by France to Germany.

No. 288

Lord Tyrrell (Paris) to the Marquess of Reading
(Received November 6)

No. 13 Saving: Telegraphic [C 8227/172/62]

PARIS, November 5, 1931

Your telegram No. 298¹ of the 3rd instant.

I saw M. Laval this morning, who gave me an account of his visit to Washington.

2. He told me that in his conversations with President Hoover they had touched upon nearly all the questions which are now occupying the attention of the world, and that he had been agreeably surprised to discover in the President an amount of sympathy and feeling which were carefully concealed by his somewhat cold appearance.

3. As regards the Washington communiqué, M. Laval wished you to know that both he and the President had hesitated a little to mention the gold standard for fear of appearing to dictate to us, but their reluctance had been overcome by their conviction that such a declaration in favour of the standard would contribute to quiet public opinion.

4. The paragraph referring to debt settlements and reparations had been

¹ Not printed. In this telegram Lord Tyrrell was instructed to remind M. Laval of his promise to exchange views with His Majesty's Government as soon as he had returned from Washington. His Majesty's Government were anxious for this exchange to take place, since it appeared to them 'a matter of urgency to devise plans for dealing with the German situation without delay'.

so worded as to soothe the susceptibilities of Germany. They had therefore decided to mention generally European Powers instead of singling out Germany.

5. In the course of these conversations, President Hoover had pressed him very strongly to find out what our intentions were as regards stabilisation, and all M. Laval had been able to do was to repeat to him what you had told him during your stay here, namely, that you would have to be guided very much by events before coming to a decision. They had both agreed that the sooner events allowed His Majesty's Government to come to a decision the better for the world.

(II)

6. M. Laval emphasised strongly the importance he attached to the contribution made by America by consenting to throw debts into the pool for the resettlement of European conditions. America had so far never officially agreed to do so, and he thought that this was a very material contribution she had made. Mr. Hoover had agreed with him that if a European solution could be found for reparations, the American contribution would be a debt settlement.

7. In order to lose no time M. Laval had at once sent for the German Ambassador and told him that if his Government would apply under the Young Plan for the appointment of a commission of enquiry into the paying capacity of Germany, France would accept such a proposal and urge an immediate meeting. He had also agreed that such an enquiry could be undertaken in the light of the general German liabilities and of the world financial situation. M. Laval intended that, as soon as the report of this committee had been received, the Governments should meet in conference in order to discuss it, and then to review the whole world situation.

(III)

8. As regards security, M. Laval had been encouraged by Americans to broach the question in his first meeting with President Hoover, and he had accordingly endeavoured to explain to him the French attitude by calling attention to the fact that though France had been frequently the victim of attacks during this and the last century, she had not developed the kind of war mentality which he would find in Germany and Italy, where Hitlerites and Fascists were promoting and cultivating an aggressive war spirit. On the contrary, in France he would find a public opinion strongly wedded to peace, a Constitution which made it impossible for the Government to commit the country to war, and a determination to confine her armaments to measures of defence. He was agreeably surprised to find that the President accepted his description, and this enabled him to say to the President: 'It lies with you to stop war by a simple declaration that America will always be found opposed to the aggressor. The best way to give expression to such a policy would be for America to join in a consultative pact and reconsider her attitude on the freedom of the seas.'

9. Mr. Hoover had replied that public opinion in his country was not yet sufficiently advanced to make such a general declaration, but that America, as in the past, would always be found siding against the aggressor. On the whole M. Laval gathered the impression that the American attitude of aloofness from European entanglements was not as rigid as it has been in the past.

10. M. Laval added that he had enjoyed his conversations with Senator Borah, whose influence in his country he thought should not be underestimated. His conversations with the Senator had been very frank, and had led to the establishment of very friendly personal relations. It was reported to him that before his departure Senator Borah informed the French journalists that he had been much impressed by his conversations with M. Laval, and that he hoped very much to have an opportunity in which he could show his sympathy for France and be of service to her.

No. 289

Mr. Newton (Berlin) to the Marquess of Reading (Received November 9)
No. 892 [C 8310/172/62]

BERLIN, November 6, 1931

My Lord,

In my telegram No. 223¹ of November 6 I had the honour to report the substance of information given to me at the Ministry for Foreign Affairs in response to an enquiry as to how the conversations between the German Ambassador at Paris and the French Government on reparations were proceeding. The statement of German views made to me was provisional, in the sense that no final decisions had yet been taken (Dr. Brüning was very much occupied yesterday at a meeting of the Centre Party) but it was not anticipated that the views expressed to me would be substantially modified.

2. M. Laval began the conversation with Herr von Hoesch by recounting what had taken place at Washington. The German Ambassador then expounded Germany's difficulties, for which M. Laval showed appreciation (*Verständnis*). The German Government for their part, it was said to me in comment, realised that the French Prime Minister was faced with many difficulties in dealing with other members of his Government and with the Chamber of Deputies. They did not wish to add to these difficulties in any way which could be avoided, and appreciated that co-operation with France was essential. M. Laval proceeded to express the view that a new reparations settlement could, in the present abnormal circumstances, only be provisional, i.e. in the words of the Washington communiqué, 'covering the period of business depression'. The German Government are, however, anxious that a final settlement should, if at all possible, be achieved, as otherwise confidence will not return and it will be impossible even to make a start with the economic restoration of the world.

¹ Not printed.

3. M. Laval then expressed the view that the proper course would be for the German Government to ask the Bank for International Settlements to convene the Special Advisory Committee under Article 119 of the Young Plan. This led to a long and detailed discussion of the terms of reference; a financial expert was called in and later on the Minister of Finance, M. Flandin, himself participated. The German Ambassador insisted that the terms of reference as contemplated in the Young Plan were too narrow, though if they could be based only on Article 120 they could perhaps be made wide enough. Another alternative would be to add to the terms of reference as provided for in the Young Plan a provision specifically authorising the Committee to examine the whole field, including of course the unconditional annuities and also the problem of German commercial debts. The German Government thought that the composition of the Committee should be the same as that of the Basle Committee, both in order to save time and because it might be invidious for a differently constituted Committee to review the work done by the Basle Committee. The German Government had not yet thought out the precise procedure to be followed. At some stage no doubt a formal communication would be addressed to all the Governments concerned, but presumably before that stage was reached steps would be taken to secure their concurrence in what was proposed.

4. When mentioning that the German Government were now ready with proposals for dealing with the short-term commercial debts on the expiry of the *Stillhalte* Agreement, my informant expressed ignorance as to what these proposals were. It is now, of course, difficult to make direct enquiries on the subject, but I will attempt to secure privately some indication of the nature of the proposals which the German Government may have in mind. While appreciating the force of M. Laval's objection to their issue at the present juncture, the German Government feel that it is a matter of urgency to settle what is to be done with the short-term debts when the *Stillhalte* Agreement expires. The problem is full of difficulties which will no doubt necessitate much discussion between the interested parties. No time should, therefore, be lost in beginning these discussions.

5. As reported in my above-mentioned telegram, such indications as the German Government have of official American views suggest that the United States Government agree with the French view that a settlement now should only be provisional and that reparations ought to have precedence over commercial debts. These indications were, I gathered, derived from the American Ambassador in Berlin and other sources, but it was thought that they might not be conclusive and it was pointed out to me that influential American financial authorities might take a different view.

I have, &c.

B. C. NEWTON

Mr. Newton (Berlin) to Sir J. Simon¹ (Received November 13)

No. 226 Telegraphic [C 8455/172/62]

BERLIN, November 13, 1931

My despatch No. 892.²

I learn at the Ministry of Foreign Affairs that German Ambassador in Paris has been instructed to discuss with French Government draft memorandum which, if the latter agree, would be addressed forthwith by German Government to Bank for International Settlements and to interested Governments proposing that special advisory committee should be convened. Draft memorandum after reviewing recent developments says that in asking for committee, German Government cannot in the altered circumstances limit themselves to grounds given in the latter part of article 119 of the Young plan.

Possibility must be examined in its entirety and in particular the committee will have to take into account the fact that there must be a fresh settlement of private indebtedness of Germany in good time before the end of February.

French Ambassador at Berlin in conversation with Secretary of State von Bülow yesterday referred to possibility that committee of creditors and debtors should meet simultaneously with special advisory committee. If French Government desire this German Government would probably raise no objection.

As regards eventual conference of Governments which it is hoped might be possible early in December I gather that any central meeting place would suit the German Government except that they would dislike Brussels.

In strictest confidence I was told that it is under consideration that von Bülow should attend the forthcoming League of Nations meeting at Paris in order to meet criticism which has been made here that German representation hitherto has not been sufficiently important and also to give him the opportunity of contact with reparations negotiations.

¹ Sir John Simon succeeded the Marquess of Reading as Secretary of State for Foreign Affairs on November 9, 1931.

² No. 289.

Mr. Campbell (Paris) to Sir J. Simon (Received November 14)

No. 18 Saving: by bag [C 8443/172/62]

PARIS, November 13, 1931

My telegram No. 243¹ of November 12.

German Embassy informs me that at his interview with President of the Council this morning German Ambassador handed to M. Laval new formula for German request for appointment of commission of enquiry. Herr von

¹ Not printed. This telegram reported that no formula had yet been submitted by the German Government to the French Government.

Hoesch also apparently communicated a formula dealing with question of short-term credits. M. Laval said that he could not express an opinion without consulting other Ministers, which he promised to do at once and to give Herr von Hoesch a reply probably tomorrow evening, November 14.

2. German Embassy does not apparently expect this reply to be entirely satisfactory; and view expressed to me was that discussions will probably continue for a few more days before settlement is reached. The main difficulties are apparently the question of the unconditional annuity and the duration of the new arrangement, whatever it may be. German Government wish it to open the way to a definite solution. According to German Embassy French wish it to be of a temporary nature.

3. According to German Embassy German Government is still determined not to send any communication to the Bank of International Settlements such as to provoke a challenge of German thesis (see paragraph I of telegram No. 16¹ Saving of November 9).

¹ Not printed. This telegram reported that conversations between the German Ambassador and the French Ministers were continuing, and that the Germans insisted on a formula which would ensure that the whole financial obligations of Germany came under consideration.

No. 292

Sir J. Simon to Sir R. Lindsay (Washington)

No. 790 Telegraphic [C 8348/172/62]

FOREIGN OFFICE, November 14, 1931

Your telegram No. 661¹ and your despatch No. 1687:² United States Government's attitude towards German reparations.

I have been struck by the fact that Secretary of State appears to have made no reference to problem as to what is to become of United States short-term credits on the expiry of the Stillstand Agreement on February 29 (see Foreign Office telegram to Berlin of October 24)³—notwithstanding the fact that the amount of United States money involved is I believe estimated at as much as £120 million.

Moreover since M. Laval's return French press has stated that French Government in proposals which they are putting to German Government have been refusing to accept German argument that problems of short-term indebtedness and reparations must necessarily be examined together as part of one whole. As far as I am aware these statements have not aroused any particular interest or anxiety in the United States press.

Again in your despatch of October 28, No. 1688⁴ paragraph 2, you report Mr. Hoover as saying that it would in the circumstances as they exist be

¹ No. 280.

² Not printed. This despatch reported press and other comments on M. Laval's visit.

³ Not printed. See No. 278, note 1.

⁴ Not printed. This despatch reported remarks made by Mr. Hoover in a conversation with Mr. H. G. Wells.

better for the United States to write down to nothing the investments of United States capital in Europe. Is this to be taken to apply to American short-term money in Germany?

I shall be glad to learn your views as to the attitude of the United States Government as regards this question and the extent to which Mr. Hoover, by consenting to allow France a free hand in reparations, has undertaken not to intervene on behalf of United States financial houses whose short-term money is frozen in Germany.

Also I should like if possible to know what effect present Franco-German discussions are having on United States financial opinion and whether there is any divergence of opinion between Administration and Wall Street as to the need for provision to be made for the early repayment of American credits in Germany.

No. 293

Sir J. Simon to Sir R. Vansittart (Received November 18)

No. 139 [C 8568/172/62]

BRITISH DELEGATION, PARIS, November 17, 1931

Sir John Simon at Paris presents his compliments to the Under-Secretary of State for Foreign Affairs, and has the honour to transmit to him a memorandum recording an interview with M. Laval.¹

ENCLOSURE IN No. 293

*Record of an interview between Sir J. Simon and M. Laval
November 17, 1931*

This morning I paid a visit to the French Premier for the purpose of making his acquaintance and laying the foundation for our future relations.

M. Laval spoke very freely to me in the course of nearly an hour's interview. He impressed me strongly as a man of directness and solidity of mind, with whom it was possible to pursue a subject consecutively in a way which Englishmen understand.

He began by referring to our recent elections, and expressed warm admiration for the courage of Mr. MacDonald, emphasising that the Prime Minister had, notwithstanding all his relations with the international Socialist movement, put country before party and shown great boldness in the action he had taken in the present difficult situation in England.

M. Laval then opened out on the general subject of the European financial situation. I made it clear that, so far as I was concerned, our conversation was of a preliminary character, as I was returning to London on Thursday, and that I appreciated the opportunity of being able to place the British Government in possession of the views of M. Laval, so that if I returned to Paris we could resume the subject.

M. Laval then proceeded to give an account of his visit to Washington, and

¹ During his visit to Paris Sir J. Simon also saw M. Flandin.

he expounded the communiqué which had been issued as the result of his conversations with President Hoover. He emphasised that, while they had not attempted to define the terms and conditions of the new arrangement, it was understood that this arrangement would apply only during the period of depression. Then it was announced that the initiative should be taken by the European Powers—and this really meant Germany—that was why on his return to Paris he had at once sent for the German Ambassador and proposed that the German Government should as soon as possible take the initiative in asking for the special consultative committee to be set up. I said that I understood that the position was that Germany would ask the experts to subject to a new examination the capacity of Germany to pay, and that M. Laval would note that His Majesty's Government had hitherto left the negotiations on this point of procedure entirely in the hands of the French and German Governments and had not made any effort to intervene. M. Laval expressed his thanks for this attitude of His Majesty's Government. His only object in the conversations which had been proceeding was to induce Germany to take the initiative for a fresh examination. Germany had been anxious to give to the experts' committee a wider mandate than that provided for in the Young plan so that the private debts of Germany could be definitely included in the terms of reference. To that M. Laval said the French Government were unable to agree. A full examination, in his view, was, in fact, provided for by article 120 of the Young plan, so that the point was really covered. At the same time he emphasised that the experts were bound to regard themselves as within the framework of the Young plan. He believed that the question of short-term credits might be examined simultaneously between the bankers interested and their German debtors. When the experts' committee had made their report, there would naturally be a conference of Governments—that was the moment when they would have to envisage all the measures of adaptation for Germany in respect of the payment of reparations and of short-term debts. I emphasised the importance which British opinion attached to taking into full account the commercial obligations of Germany, and asked whether I rightly understood that what he said amounted to this: that, while the French Government could not agree to the experts being specifically empowered to consider the position as regards short-term debts, they would yet, in his view, be enabled by the terms of reference under article 120 to consider the capacity of payment by Germany.

During the interview M. Laval communicated by telephone with M. Flandin and afterwards dictated textually a short explanation of the situation—the effect of which is reproduced above.

In the course of the interview M. Laval, referring to the American attitude, said that the position was that President Hoover would make his contribution as regards debts, while France would make hers under the head of reparations should that be found to be necessary.

I enquired what was M. Laval's idea as to the date of the summoning of the conference. He said that as regards France he would try to answer the question although he would be a little premature. The 7th December was

the date when President Hoover might be expected to seek the approval of Congress, and M. Laval hoped that the conference of Governments could be summoned between that date and the end of the year. The French Government wished to neglect nothing which would prevent the collapse of Germany. The first countries to be affected would be Great Britain and America, but the repercussions on France could not be long delayed. I observed that time was short and that it was of absolutely vital importance that the demands to be made on Germany should not press too heavily upon her, since if there were any failure on the part of Germany to pay her private and commercial debts, that would, in its turn, react on any payments of reparations which might have been agreed to.

M. Laval said that while France in the recent negotiations in connexion with the Hoover moratorium had reserved her position as regards unconditional reparations, she had agreed that money transferred on account of reparations should be re-lent to the railways. France was very touchy on the matter of the connexion of reparations and short-term credits. He had insisted on the priority of the annuities, and he must be very careful in this respect. He suggested that if the experts committee were to decide that certain of the reparations could be paid, France might assist by a portion being placed at the disposal of the Bank for International Settlements for re-lending to German municipalities and others in order to assist them in meeting short-term debts, and that thereby the position of the short-term creditors could be eased, namely, the British and American bankers. On such a plan he thought that French public opinion could be brought to agree. M. Laval emphasised once again that he must be very strict as regards the Young plan, since were he to agree to allow the experts to go beyond the provisions of that instrument, he would immediately lose all his influence.

M. Laval said that while the past was past, and he did not wish to level any reproach against the bankers, he did still suggest that they had been over lavish in their method of lending to Germany and that even Chancellor Brüning had admitted that this was the case. He added that he was to be called upon to make a speech in the Chamber either to-night or to-morrow, and he sent for his notes of his speech, a large portion of which he read over to me. He explained that it was necessary for him to appear very stiff as regards Germany to meet the requirements of the situation in the French Chamber. The extracts he read to me included a stern reference to the spendthrift expenditure of Germany in various fields of her economic life during the past few years, but emphasised the desire of France to assist in finding a solution.

M. Laval said that His Majesty's Government might rest assured that the French Government would exert every effort for a complete examination of the position before the end of the year so that the conference might be held, and he hoped it would result in placing Germany on her feet.

I told him that I was likely to see Herr von Bülow later in the day and asked if he had any suggestion to make in that connexion. He replied that he would be grateful for anything which I could do to assist in a conclusion being

reached as regards the application of Germany for the appointment of the experts committee. He was under the impression that a formula should be found within forty-eight hours. Chancellor Brüning had been correctitude itself throughout the whole affair. The draft letter first proposed was unacceptable to the French Government, but he (M. Laval) had agreed that no reply should be returned in the hope that a formula might be agreed between the two Governments for the invitation to be issued by the German Government in terms which would involve no reply from France. I understood him to say that it had been agreed that if any point of difficulty about the terms of the letter was outstanding, he, M. Laval, should act as arbitrator—presumably between M. Flandin and the German Ambassador.

In view of what had been said, I reverted to the question of Germany's private debts and said that M. Laval would appreciate the strength of public opinion in England as to the necessity of this being provided for. The British people had made an immense effort to restore stability to the £ and this was of great importance to others besides ourselves. It followed that any failure in respect of Germany's obligations to British creditors would only tend to undo the good that had been done by weakening our own financial position.

I thanked M. Laval for the very full and frank exposition which he had given and said I should be glad to report what he had said to the Prime Minister and my colleagues, and that if I had to return to Paris in connexion with the League of Nations I should be glad to see M. Laval again. He said he would be at my disposal at any time to do anything in complete agreement with His Majesty's Government and observed that as regards His Majesty's Government, France had no precautions to take of any kind, although in the case of Germany the position was slightly different. He was, in particular, pleased to feel that there was a really strong Government in England with which the French Government had to deal.

Throughout the interview I was careful to say nothing which would in any way commit His Majesty's Government, but, as I have said above, I stressed strongly the urgency of getting the experts committee appointed and of securing an examination over the whole field.

I asked whether his idea was that the committee should be composed of the same experts as before. He replied that that depended on the choice of the nominators. France wanted a member from Yugoslavia.

No. 294

Sir J. Simon to Sir R. Vansittart (Received November 18)

No. 140 [C 8569/172/62]

BRITISH DELEGATION, PARIS, *November 17, 1931*

Sir John Simon, at Paris, presents his compliments to the Under-Secretary of State for Foreign Affairs, and has the honour to transmit to him a memorandum recording an interview with Herr von Bülow.

*Record of Conversation between Sir J. Simon and Herr von Bülow
November 17, 1931*

This afternoon Herr von Bülow, the Permanent Under-Secretary of State of the German Foreign Office, called to see me. He is in Paris ostensibly in connexion with the meeting of the Council of the League of Nations on the Manchurian affair, but is spending nearly all his time on the Franco-German negotiation for the application about to be made by Germany to the Bank of International Settlements for the setting up of the special advisory committee. He mentioned a number of interesting points, some of which may add to previous information. He said that he expected that the proposed letter of application would be settled and delivered on Thursday or Friday this week. M. Flandin had been very difficult to satisfy on a number of points, but anything now outstanding was not very important. According to the present draft, there would be no reference to short-term credits save in a concluding paragraph, which it was intended should say that the committee would have to bear the situation which these created in mind. The earlier part of the letter would include a recital of the whole series of temporary arrangements that had to be made. The application for the appointment of a committee would, of course, be made under the second alternative in article 119 of the Young plan. The difficulty was to agree to the phraseology under article 120, which, while it would satisfy the French as being 'within the framework' of the plan, at the same time was sufficiently wide to include the examination of what really mattered. A strict limitation to the conditional annuities (compare article 135) would be useless. I mentioned M. Laval's observation to me in the morning that he might have to arbitrate before the final terms were settled. Herr von Bülow smiled and conveyed that Flandin in such a case would get his way.

Herr von Bülow scouted the idea that there could be any funding of the short-term credits, or that there could be advances from the Bank of International Settlements to municipalities, &c. (see my note of my interview with M. Laval). He observed that if Germany's credit justified it many of her short-term creditors would wish to renew their credits; in other cases they might agree to become participants in the concerns they had helped to finance.

I asked him when he thought the conference which would follow the report of the committee might be expected to take place. He said that, however quickly the committee got to work, the report could not be available before a date some way on in December, and that he thought it would be undesirable for the conference to meet for a few days before Christmas and then adjourn, since a break of that sort led to a hardening of opinion. He had asked M. Laval where he thought it would be convenient for the conference to meet, and gathered that the French Government favoured French soil, but outside Paris. M. Flandin had suggested Cannes, but he thought this rather inaccessible. There were objections to Belgium or Holland, and he wondered

whether there was any place in Northern France sufficiently well provided with hotels. For himself, he would have thought Baden-Baden, or one of the Rhine towns, as a good suggestion. It would be a long business, and Ministers of State could not be away from their offices continuously.

As to the personnel of the advisory committee, he expressed the strongest admiration for Sir Walter Layton's work. He knew all about it, and knew how to express the conclusions. It would save a great deal of time if he served again. As for Mr. Wiggin, he pointed out to me that article 129 of the Young plan says that the United States nominee should be ordinarily resident in Europe or in a position to be in prompt attendance in the event of a committee being called. As far as he knew, Mr. Wiggin has as yet made no move to cross the Atlantic. He confirmed what M. Laval had told me, that the French wanted a Yugoslav on the body. I observed that on this matter of procedure, which was now under discussion between France and Germany, the British Government had not yet intervened, and I called attention to Mr. Baldwin's speech.¹ He said that the German Government appreciated our action in the matter and were grateful for our reserve.

¹ On November 13 Mr. Baldwin said in the House of Commons that 'Some kind of agreement between France and Germany' was 'one of the most important preliminaries in the whole question' of war debts and reparations. *Parl. Deb.*, 5th Ser., H. of C., vol. 259, cols. 460-2.

No. 295

Lord Tyrrell (Paris) to Sir R. Vansittart (Received November 18)

No. 21 Saving: Telegraphic [C 8548/172/62]

PARIS, November 17, 1931

My telegram No. 20, Saving.¹

German Embassy informs me this morning that Franco-German discussions respecting appointment of commission of enquiry under Young plan are practically complete, and that German application to Bank of International Settlements and to Governments will be despatched within next day or two.

2. It has been agreed with French Ministers that German Government will ask Bank to appoint commission to examine situation as a whole and in all its aspects, and taking account of fact that question of frozen credits has to be decided in February 1932. French Government will not make any comment upon letter, though there is apparently a certain doubt as to what M. Laval will be obliged to say in Chamber of Deputies during debate which opens to-day.

3. It has been agreed that personnel of commission of enquiry should be identical with that of Wiggin Committee, with addition of one member, a Yugoslav. The two Governments have agreed that the report of the commission of enquiry be followed by a governmental conference.

¹ Not printed. This telegram of November 4 reported that the German Ambassador, after a further meeting with the French Ministers, had referred to Berlin for instructions.

Mr. Newton (Berlin) to Sir J. Simon (Received November 20)

No. 935 [C 8636/11/18]

BERLIN, November 17, 1931

Sir,

The Landtag elections in the Federal State of Hesse, which took place yesterday, resulted, as was expected, in gains by the extremists, the National Socialists more than doubling the number of votes polled in the September Reichstag elections, and the Communists gained substantially. The Social Democrats again lost heavily.

2. The following table gives the numbers of the votes polled as compared with the Reichstag elections of September 1930, and the seats won as compared with the seats previously held in the Hessian Landtag:—

National Socialists . . .	291,189	(137,981)	27	(1)
German Nationals . . .	10,857	(11,902)	1	(3)
German People's party . . .	18,325	(49,929)	1	(7)
Country party (Landvolk) . . .	20,766	(57,575)	2	(9)
Christian Socialists . . .	16,712	(19,086)	1	(0)
Centre party . . .	112,440	(104,246)	10	(13)
State party . . .	10,793	(38,829)	1	(3)
Social Democrats . . .	168,299	(215,747)	15	(24)
Left wing Social Democrats . . .	8,177	..	1	(0)
Communists . . .	106,775	(84,513)	10	(4)
Communist Opposition . . .	14,954	..	1	(0)

3. The National Socialists have thus become the strongest party in the Landtag, but neither alone, nor with the parties from the People's party to the Nationalists, can they dispose of an absolute majority. Still less can an absolute majority be formed out of the former Government parties. Except the Catholic Centre and the Lutheran Christian Socialists, the *bourgeois* parties have suffered another severe reverse, and, if the present tendency continues, may dwindle into insignificance throughout Germany. The Catholic Centre, as usual, with an increased poll, held its own, while the Lutheran group now hold one seat, where before they had no representation. The negotiations for the formation of a Government in Hesse will now be watched with some interest, as it is considered that they may give some indication of future political groupings in the Reich.

4. The whole German press to-day devotes considerable space to the results of the Hesse elections. Emphasis is generally laid on the fact that these elections provide a further indication of tendencies in the Reich itself, which are clearly leading towards a system where the only parties which count will be the Communists, the Social Democrats, the Centre and the National Socialists. These four parties the democratic 'Börsen-Courier' describes as 'three mass parties of socialistic tendencies and one party with a wider view' (Weltanschauungs-Partei). It is of interest that 'Germania', the organ of the Catholic Centre, frankly recognises the Lutheran Christian Socialists as allies,

and welcomes the fact that they were able to establish their position in Hesse. The democratic 'Vossische Zeitung' calls the elections 'protest elections directed against those *bourgeois* groups which are regarded as the representatives of a purely capitalistic system and as the preachers of social reaction'.

5. The democratic 'Berliner Tageblatt' points out that the result of the elections has really strengthened the key position of the Centre, without whose help the National Socialists—in Parliament—cannot come into power. This, it considers, will lead to increased pressure on the Centre to make a beginning in Hesse with the alteration of its previous attitude towards Hitler. The papers of the Right also point out that a stable Government in Hesse can only be achieved on the basis of co-operation between the Centre and the National Socialists, which may serve as a model for the Reich. The more extreme 'Deutsche Zeitung', however, observes that the time is rapidly approaching, if only the parties of the Right keep their nerve, when the political isolation of the Centre will come within the bounds of possibility.

6. The Social Democrats are obviously concerned about the present political developments, and their official press agency frankly recognises the Hessian elections as being symptomatic for the position in the Reich itself. According to the press, the Social Democratic leaders will to-day call on the Chancellor and discuss with him 'what attitude the Government propose to adopt as a result of the growth of National Socialism and the resulting necessity of dealing with the danger of civil war'. Several newspapers draw attention to a reference made by Dr. Breitscheid on the 14th November to a recent declaration issued by the Communist party denouncing terrorist methods. Dr. Breitscheid observed: 'If the decision of the Central Committee of the Communist party is really to be followed, if the party were really to renounce its revolutionary and terrorist ideas and practices, then at least one of the many obstacles would be removed which up till now have stood in the way of the formation of a common front of the working classes in defence against fascism.' 'Vorwärts' emphatically denies rumours which had resulted from this statement regarding alleged negotiations between the Social Democrats and the Communist party, and points out that Dr. Breitscheid did not in any way indicate that all obstacles had been removed, and that it itself had welcomed the Communist declaration against the terror as an advance which would be of the first importance if only the Communists were to recognise that in the immediate future the real task was not the world revolutionary offensive, but the prevention of a Fascist régime in Germany, and that the National Socialists were the real enemy and not the Social Democrats. The Communist organ, 'Rote Fahne', however, in no way responds to this overture, and makes it perfectly clear that it considers the Social Democrats as the chief enemy against whom the main attack must be directed in the present period of class warfare.

I have, &c.

B. C. NEWTON

Mr. Newton (Berlin) to Sir J. Simon (Received November 18)

No. 227 Telegraphic [C 8604/172/62]

BERLIN, November 18, 1931

Your telegram No. 219¹ and your telegram No. 790 to Washington.²

Reichsbank in conversation with Financial Adviser categorically denied that any offer was made by German authorities to American banks or that a counter offer was received. Reichsbank is in close touch with Harrison of Federal Reserve Bank who is strongly urging them not to insist on bringing into too great prominence the question of priority since this might create difficulties for United States Government who might be accused of sacrificing receipts due to tax-payer in favour of Wall Street. Reichsbank hope eventually to effect direct commercial settlements between individual creditors and debtors without too much Government intervention. On being pressed they admitted that they did not see how this could be done without linking question up with reparations and that it was very difficult to settle with private creditors before progress had been made on reparations question.

United States Embassy explained that American bankers were much inclined to take action independently not only of United States Government but even of one another. Representatives in Berlin of American banks had not been aware beforehand of communication addressed by their principals to Luther and even now American Embassy had not seen list of signatures to telegram sent to Luther nor had Luther spoken to United States Ambassador on the subject. Incident therefore appeared to have occurred entirely outside official negotiations and in consequence it was easy for Reichsbank to evade making a definite reply.

From the above it seems clear that whatever suggestions were made from German side they were so unauthorised that they could be disavowed when an equally unauthorised reply from America reached Reichsbank. It is however clear that some representations have been made by individual bankers to Luther and he refused at present to reply to them.

In private informal conversation with me a few days ago United States Ambassador pointed out remission of reparations leading to remission of debts would fall on the American tax-payer and moreover at a moment when his private income was diminished and federal budget was already difficult to balance. Whatever President might think inwardly he would therefore for fear of Congress need to maintain officially that reparations must have priority over private debts.

¹ Not printed. In this telegram of November 16 Mr. Newton was asked for information about offers alleged to have been made by German authorities to American bankers on the subject of 'frozen' American credits to Germany.

² No. 292.

Sir R. Lindsay (Washington) to Sir J. Simon (Received November 19)

No. 712 Telegraphic [C 8607/172/62]

WASHINGTON, November 18, 1931

Your telegram No. 790.¹

I ascertained yesterday that financial circles in New York had been alarmed at reported priority to be given to reparation payments over commercial debts and had made representations at State Department.

To-day I asked Under-Secretary of State what were the feelings of the United States Government on this subject. He replied they were far from indifferent and a confidential telegram had been sent to United States Ambassador in Berlin yesterday for his information and guidance in the following sense. United States Government understood that discussions were in progress between French and German Governments to define scope of committee to be set up under Young Plan, the former seeking to restrict, the latter to enlarge that scope. United States view was that both these contentions were wrong. It was the President's understanding of his conversations with M. Laval that while the Young Plan was to be invoked for setting up of committee and while agreement is desirable as to inter-government obligations over period of depression the committee was not to be debarred from undertaking wide examination of conditions, from taking all circumstances including if necessary unconditional payments into consideration and, if thought fit, making recommendations with free hand and going beyond period of depression. Any suggestion that committee's labours should be limited in advance by giving precedence to one category of obligation over another would be unacceptable. On the other hand an agreement between French and German Governments, if acceptable to the other Powers concerned, might [² be regarded] as irrelevant to terms of reference for the committee, whose eventual report might have to be followed by conference of Governments.

I suggested upshot of this was that while the Young Plan was to be adhered to for setting up of committee it was to be abandoned as regards its labours. To this he agreed.

He told me that according to a telegram received to-day from United States Embassy in Paris, German Embassy had volunteered the information that agreement between French and German Governments was imminent and that apparently the French Government were accepting principle enunciated above.

He spoke of composition of committee and thought it should be on lines of the Basle committee. . . .³

¹ No. 292.

² The text here is uncertain.

³ The remainder of this telegram dealt with the choice of *personnel* for the committee.

*Baron von Neurath to Sir J. Simon (Received November 20)**[C 8653/172/62]*GERMAN EMBASSY, LONDON, *November 20, 1931*

Sir,

On behalf of the German Government I have the honour to communicate to your Excellency a memorandum¹ in which the German Government apply for the convocation of the Special Advisory Committee envisaged in the new plan under The Hague Agreement of the 20th January, 1930.

I have, &c.

NEURATH

ENCLOSURE IN No. 299

*(Translation)**Memorandum*

The German Government hereby request that the Bank for International Settlements at Basle will convene the Special Advisory Committee envisaged in the New Plan under The Hague Agreement of the 20th January, 1930. The German Government have the honour to remark as follows with regard to the cause and object of this application:—

At the beginning of June this year the German Government had arrived at the conviction that despite the utmost reductions in State expenditure, and repeated increases in taxation, it would not be in a position to continue paying the annuities prescribed by the New Plan. The economic and financial situation of Germany was at that time menaced in the most serious manner. The German Government, therefore, decided to draw the necessary conclusions from this state of affairs.

This decision was followed on the 21st June by the declaration of the President of the United States of America, which proposed the postponement for one year of all payments in the sphere of debts between Governments, reparations and reconstruction. As was stated in the declaration, the aim of this far-sighted initiative was to contribute to the restoration of confidence, and thereby to promote both political peace and economic stabilisation throughout the world; time was to be given to the debtor States to regain their national prosperity. The expectation that this proposal would bring about a decisive turn in the world crisis has not been realised. Subsequent events produced the result that the holiday Hoover year could not, by itself, obviate the danger of collapse. The British Government, therefore, in July took the step of convening the London Conference. From the recommendations of the conference there resulted the prolongation of the rediscount credit granted to the Reichsbank, the so-called Basle Standstill Agreement and the

¹ This memorandum was handed to Sir R. Vansittart by Baron von Neurath on November 20. The memorandum was communicated to the Bank for International Settlements by the German Finance Minister on November 19. Another translation of the memorandum was published in Cmd. 3995. The special Advisory Committee met on December 7 and issued a report on December 23. The report which was published in Great Britain in Cmd. 3995 is reprinted as Appendix III to this volume.

report of the Basle Experts' Committee appointed by the Bank for International Settlements.

However important all these measures were in bringing about a speedy alleviation of the position, they were, from their entire character, only of a preparatory nature. The London Conference itself in its final declaration laid down that the measures recommended should only be a first step, and that they should form the foundation for action of far-reaching importance. Accordingly, the provisional character of all these measures was ever in the mind of the experts who co-operated in carrying out the London recommendations. Thus, in the Standstill Agreement, it is stated that the contracting parties have only agreed to the settlement prescribed therein 'pending the attainment of a more permanent settlement of the problem of Germany's short-term indebtedness'. Similarly, the report of the Basle Experts' Committee concludes with the urgent warning to the Governments concerned to 'lose no time in taking the necessary measures for bringing about such conditions as will allow financial operations to bring to Germany—and thereby to the world—sorely-needed assistance'.

In the months which have since passed the economic and financial position of Germany has become extremely critical. The facts which indicate this position are generally known. In other countries also the pressure of the crisis has led to the gravest symptoms. The world has become increasingly clear regarding the essential connexion between the different subsidiary financial problems which have been raised by the situation, and the necessity of dealing with them as a whole forthwith. Among the suggestions as to the best manner of approaching this task, the idea has recently come into the foreground to start by convening the Special Advisory Committee. As under the terms of the New Plan the convocation of the Special Advisory Committee depends upon an application by the German Government, the latter have decided to make such an application in order that, on their part, everything may be done which may open the way to comprehensive combined measures on the part of the Governments.

According to the New Plan it is necessary for the purpose of this application that the German Government should declare that 'they have come to the conclusion in good faith that Germany's exchange and economic life may be seriously endangered by the transfer in part or in full of the postponable portion of the annuities'. In making this declaration the German Government feel bound to state that such a declaration does not do justice to the present situation. Since the New Plan was conceived the economic and financial situation of the world, particularly in Germany, has been fundamentally altered by an unparalleled crisis. As the New Plan confers upon the Special Advisory Committee the task of examining the position from all points of view, the committee must consider the problem in its entirety, and with regard to all its contributory factors. In doing so it must particularly consider the fact that the question of the private indebtedness of Germany must be settled anew in due time before the end of February next by an agreement to be concluded between foreign creditors and German debtors.

As the present circumstances require that the measures to be taken should be expedited as much as possible, the German Government propose that the Special Advisory Committee should meet at once, and that it should complete its labours as quickly as possible in order that a conference may be held at an early date of those Governments which are concerned with the decisions to be arrived at.

November 20, 1931

No. 300

Mr. Newton (Berlin) to Sir J. Simon (Received November 24)

No. 940 [C 8716/11/18]

BERLIN, *November 20, 1931*

Sir,

With reference to my despatch No. 935¹ of the 17th November regarding the Nazi successes in the election in Hesse, I have the honour to state that, in view of the steadily increasing growth of the National Socialist movement, many people recently, including both officials and various foreign correspondents in Berlin, have been seeking to find in the speeches of the party leaders some definite indication as to what the policy of the party is. So far these enquiries appear to have met with little success.

2. At a meeting held at Stettin on the 31st October, Dr. Frick, the former Minister of the Interior in Thuringia, and Reichstag party leader, who is considered to be one of their few able leaders, made a few general references to policy. He declared that it was impossible for Germany to make any further tribute payments, as a balance of exports could only be maintained by a corresponding loss of substance on the part of Germany's economy. One of the principal demands of the National Socialists was, therefore, that Germany must refuse to make any further payments, but in doing so he declared it would be wrong to cite the provisions of the Young plan. On the contrary, the refusal of further tribute payments should be closely coupled with a demand for a revision of the Treaty of Versailles. In particular, Dr. Frick emphasised the untenable situation produced by the Polish Corridor, which, he declared, was unreasonable and incompatible with the dignity of Germany.

3. The readiness of the Nazis to honour private and commercial debts has at various times been indicated by their leaders, and I note that in a statement communicated to me by His Majesty's Consul-General at Munich, which is understood to be intended to explain National Socialist aims to foreigners, it is mentioned that, while no tribute payments should be made, private debts should be honoured in full.

4. At a recent meeting in Hamburg, Gregor Strasser, who has frequently been spokesman in the Reichstag, committed himself to few definite statements regarding future policy. He declared, however, that no currency experiments would be made. As a remedy for unemployment, he advocated a compulsory limitation of interest to 4 per cent. and the earmarking of the House Rents Tax for repair work on the buildings which paid it. Dr. Feder,

¹ No. 296.

on the other hand, who was largely responsible for the drafting of the famous programme of twenty-five points, recently produced some vague and rather wild economics which seemed to involve currency experiments. At various times National Socialist leaders have also advocated a scheme of compulsory employment for two years at the apprentice stage. At recent meetings in Berlin the chief theme has been the murders of National Socialists by Communists, which the leaders persistently allege go unpunished.

5. Perhaps the most striking recent development is the indication being given by the more responsible Nazi leaders of a desire to work with other countries, and particularly to find a basis of understanding with France. An example of this was reported in paragraph 6 of Sir Horace Rumbold's despatch No. 814¹ of the 16th October, which, for convenience of reference, I will in part repeat. Dr. Frick, on the 16th October in the Reichstag, declared that the National Socialists were ready 'for any kind of understanding with France, provided France offers a guarantee that the vital needs of Germany will be taken into account'. These he described as 'room for the German nation to live and expand, room for the growing national force of the German youth to flourish, equality in all fields, especially the military field, with all other aspiring nations'. The reference to military equality may seem to ignore the facts of the situation, but the whole represents a considerable advance from the days when hostility to France, the arch-enemy, was one of the main planks of National Socialist policy. Some light on what may be meant by the previous reference to room to live, expand and flourish is thrown by a passage in a circular, dated September, which some Stahlhelm members of the Bremen Cotton Exchange have sent to business associates in Great Britain and the United States of America. It is there explained that 'the National leaders demand for the German people conditions under which they can decently exist, and those conditions have not yet been granted to them. This ought to be apparent also to other nations. On an area 80,300 square kilom. smaller than France, with her 40 millions, are crowded together nearly 65 million people without any colonies whatever. Germany cannot live for ever under present conditions, and the common-sense of the world, and above all of the white races, must at last understand that.'

6. Probably the leaders of the National Socialist movement have not felt it necessary or desirable to commit themselves too definitely, and no real programme yet exists. The movement is battenning well enough on discontent and promises, and more and more people are now realising that by directing the attention of discontented youth to national ideals National Socialism is serving as an invaluable lightning conductor to the sparks of communism with which otherwise the atmosphere might be dangerously charged.

7. Some people here believe that in the Brown House in Munich a Shadow Cabinet is being trained and prepared, but names are never given in support of this rumour. All that can be said at present is that the organisation within the Brown House is remarkably effective, and the policy of headquarters

¹ Not printed. This despatch dealt with the debate in the Reichstag on a motion of non-confidence in Dr. Brüning's Administration.

seems to be to concentrate on local elections, with one eye on the elections in Prussia and the other on the presidential election, both due next spring.

8. Some light is thrown on the organisation of the party by an article in the 'Deutsche Allgemeine Zeitung' this morning. At a meeting of the party leaders in Munich, it declares, Hitler announced that, when the party had 1 million members, its lists would be permanently closed, and the party strength would then be maintained solely through the youth organisations of the movement. The newspaper estimates the present strength of the party to be 600,000, including 200,000 storm detachment men, while the votes given for the party in the Reich elections of September 1930 were nearly 6½ million. A party of 1 million, it calculates, would represent a voting list of 10 million. In Hitler's book, 'Mein Kampf', the newspaper points out, he drew a sharp distinction between actual members of the party and mere supporters. Members of the party, he considered, were such men as were ready to fight for the party, to suffer sacrifices, to risk their skins, to take part in training courses and to assume the rôle of leaders, from the humblest to the highest offices in the State. Too many members of the party, he considered, meant a watering-down of its character, such as had taken place in the Social Democratic party. The newspaper considers that there is much to be said for this view, and points out that, on the other side, there is the danger of the party becoming rigid and torpid, as youth organisations are inclined to provide recruits of a subordinate rather than an independent character.

I have, &c.

B. C. NEWTON

No. 301

Mr. Newton (Berlin) to Sir J. Simon (Received November 24)

No. 948 [C 8724/9/18]

BERLIN, November 20, 1931

Sir,

I have the honour to transmit a memorandum on Germany's economic and financial situation in relation to her foreign indebtedness, compiled by the commercial counsellor and the financial adviser to this Embassy. It has been completed by the addition of two political paragraphs, with which I am in agreement. In this memorandum an attempt has been made to give a picture of Germany's position on the eve of the negotiations concerning reparations and private and commercial debts, which are about to commence.

2. You will observe that this careful survey by two experienced observers confirms in many respects the somewhat gloomy estimates made by the Germans themselves. In paragraph 23 a concrete suggestion is made on which some comment is required. It is pointed out that experience of the activities of the German Statistical Office does not inspire confidence, not because of any attempt at deliberate misrepresentation, but because lack of finance and trained personnel have led to figures which claim to be authoritative being built up on too narrow a basis. It is suggested, therefore, that small expert commissions, representing the creditor countries, should spend some

weeks in the various important industrial districts in Germany, examining conditions on the spot.

3. It is not unlikely that in present circumstances the reports of such commissions would strengthen rather than weaken Germany's case. An attack on Germany's statistics might be countered by the reports of commissions who had been at work on the spot, and this would strengthen the hands of those who believe it to be to the general interest that the slate should now be wiped clean.

4. On the other hand, there are certain obvious dangers. Such a proposal if made by the creditor Powers, would savour of political pressure and humiliation, and arouse the suspicion that an attempt was being made to exploit Germany's situation in order to reimpose foreign control. The position of the Brüning Government might thereby be seriously endangered. To give it any chance of acceptance, the proposal could, therefore, only be made by the German Government itself. It may be observed in this connexion that Dr. Brüning has frequently stated that Germany has nothing to hide, and that she wishes to lay her cards on the table. Even, however, if the German Government were to make the proposal, there would still be danger that the Right Opposition might seek to make political capital out of it by agitating against 'foreign threats and interference', and even raising the cry of commercial espionage. Recent commercial scandals, moreover, such as Favag, the Nordwolfe, Schultheiss-Patzenhofer, and now another Berlin bank, have indicated that there are many concerns in this country whose affairs will not bear examination. It must be assumed that persons and interests concerned may be counted on to resist tooth and nail anything that might seem to be leading to their exposure, and that they might secure support in quarters not ordinarily sympathetic to them on the ground that a move was being made towards the economic enslavement of Germany.

5. A further disadvantage is that the practical difficulties of the tasks confronting the various commissions might only result in further delay. On the whole, therefore, I feel that this proposal, in itself a practical and constructive one, should only be considered as a last resort after every endeavour has been made to reach a speedy and satisfactory solution by means at present available, and would then only be politically justifiable if the invitation came from Germany and offered a reasonable prospect of leading to a permanent settlement.

I have, &c.

B. C. NEWTON

ENCLOSURE IN No. 301

*Germany's Economic and Financial Situation in relation to her Foreign
Indebtedness*

Production

There cannot be any doubt that German industrial production is at a low ebb. The latest index compiled by the Market Research Board was 68.1 in August last, taking 1928 as equal to 100. There has certainly been no improvement since. Industrial activity is estimated to be about equal to that in

1922 and in 1924. This is borne out by the production of coal, which has fallen from 108 million tons during the first nine months of 1930 to under 90 million tons during January to September 1931, and by the reduced railway loadings of coal in 1931, as compared with 1930. The figures for pig iron during the same comparative periods are 7·8 million tons and 4·8 million tons. Details will be seen from the following tables. . . .¹

2. The engineering industry was employed to only 41 per cent. of its capacity during the third quarter of 1931, as against 53 per cent. during the corresponding period of 1930.

3. The stock of orders at the shipbuilding yards had dwindled to 113,000 tons on the 30th September, 1931, from 333,600 tons on the 31st December, 1930.

4. At the same time consumption went back, the value of the turnover of the retail trade during the first eight months of 1931 being 11·5 per cent. below that during the corresponding period of 1930. On the other hand, the rise in the consumption of cigarettes, which was due to a reduction in taxation of the cheaper classes of cigarettes as from July 1931, would seem to show that even under present circumstances alleviation of taxation can have a remarkably stimulating effect. The average monthly consumption was 1,500 million during the second quarter of 1931, the lowest point being reached in June with 800 million, since when it rose to 4,200 million in July, 2,900 million in August, and 2,300 million in September 1931.

Foreign Trade

5. As has been indicated by the foregoing, no hopes can be based on the German internal market. The country is in the midst of deflation and an Economic Advisory Council, co-operating with the Government, is considering measures to push the process yet further. Accordingly, only continued reduction of output and consumption can be looked for. Even if the inland market revived, this would not be advantageous from the point of view of meeting foreign obligations, because it would necessitate increased imports and the larger home sales would lead to a reduction of exports. Germany is consequently looking to her export trade to compensate her for the enfeebled home market and to produce that surplus which is necessary for the payment of debts. In this field, however, the symptoms are also unfavourable. It is true that the panic exports which are being made in anticipation of a tariff in England and of restrictive measures in other countries may maintain the favourable export balance for a month or two, but there are a number of factors which are bound seriously to diminish it in course of time. It must be considered that the chief export markets for German goods are the European countries—in the first place, Great Britain. The depreciation in sterling not only makes German competition on the British market much more difficult, but also places German goods at a disadvantage, compared with British in other countries. It further enables British goods to enter Germany more easily, thus altering the balance of trade in Great Britain's favour, but making

¹ These detailed tables have been omitted.

payments from Germany to Great Britain harder. The same applies to the Scandinavian countries which have abandoned the gold standard, while the South American continent is an almost closed market owing to currency restrictions and depreciation. The markets in the Far East, particularly the Indian market, are also bound to be affected by the depreciation in sterling; they are, in any case, impoverished and politically disturbed. At least as serious as these developments, however, is a deliberate movement in a number of countries to reduce imports; the movement seems to be spreading and will hit Germany's export hard, as some of her chief customers, viz., France, the Netherlands and Switzerland, are engaged in it. France intends to raise the question of the disproportion in her exchange of goods with Germany, which, at present, is all to the latter's advantage. Switzerland, alarmed by the excess of German imports, is endeavouring to limit them by a quota system, and, if agreement cannot be reached, the commercial treaty between the two countries may be terminated. Similar action is contemplated by Czechoslovakia, while the Netherlands have introduced a draft Bill which provides for an import quota for a large number of articles; a similar measure is already in force in Lithuania. The regulations dealing with the control of foreign currencies, introduced by sixteen European countries, have much the same effect. It is, therefore, only reasonable to anticipate that Germany's exports will be appreciably reduced, in spite of her strenuous efforts to bring down wages and export prices yet further. Germany is not in a position to improve her export trade by departing from the gold standard. Such a step would be regarded by all classes of the community as a return to inflation, and in a very short time the currency would be completely ruined. Any action of this kind would be immediately followed by the entire loss of the little confidence which remains and, instead of stimulating exports, would lead to paralysis in all directions. The reason for this is that the German nation, having once experienced disastrous inflation, has become so nervous that it cannot distinguish between a sound and unsound currency policy, and it would certainly reply to a departure from the gold standard by raising prices in anticipation of inflation. As regards imports, an agricultural expert estimates that Germany will have to import some 4 million tons of grain for human and animal consumption, instead of the small quantities given in official statements. Calculated on present market prices (c.i.f. Hamburg), a sum of about 407 million marks would be required for this purpose.

6. The following figures illustrate the foreign trade position:—

(Million Marks)

	<i>Import</i>	<i>Export</i>	<i>Total Foreign Trade</i>	<i>Excess of Exports over Imports</i>
January to September 1931	5,300	7,200	12,500	1,900
January to September 1930	8,100	9,100	17,200	1,000
Decrease in 1931	2,800	1,900	4,700	900
				(increase in 1931)

7. It will be seen that there has been a heavy drop in the value of exports and that the excess of exports over imports is due to the still larger decline in the latter. Exports of manufactured articles fell from 6,811 million marks during the first nine months of 1930 to 5,511 million marks in the corresponding period of the current year, while imports of raw materials and semi-manufactured articles dropped still more heavily from 4,336 million marks to 2,761 million marks during the same period. The Reichsbank return does not, however, reflect the larger export surplus which Germany has managed to produce. Apart from the fact that approximately 1,000 million reichsmarks of short credits have been repaid since July, a certain part of the exchange resulting from exports must be kept abroad, either because the goods have been sold on long credit, *e.g.*, to Russia, or to countries from which payment is difficult to obtain (*e.g.*, South America). There has also been a considerable volume of evasion of the regulations calling for the surrender of foreign exchange to the Reichsbank, but the exact amount is, of course, impossible to state.

Unemployment

8. The total business activity, whether in the home or export trades, is thus decreasing, with the result that unemployment is about 1,370,000 greater than a year ago, but it is alleged that its growth during the winter will possibly not be as great as was feared, because the building market was so depressed throughout the year that it will not contribute the usual large numbers to unemployment at the beginning of the cold season.

9. The following table shows the fluctuation of unemployment during 1931, as compared with 1930:—

End of—	1931	1930
January	4,887,000	3,218,000
February	4,972,000	3,366,000
March	4,744,000	3,041,000
April	4,358,000	2,787,000
May	4,053,000	2,635,000
June	3,954,000	2,641,000
July	3,990,000	2,765,000
August	4,215,000	2,883,000
September	4,355,000	3,004,000
October	4,622,000	3,256,000

10. The increase in unemployment during the last three months (until the end of September 1931) was distributed over the various branches of industry as follows:—

Building trade	81,335	Wood industry	6,655
Metal industry	60,383	Paper industry	5,242
Miscellaneous workers	50,148	Stokers and engineers	3,178
Industry of stones and earthenware	27,139	Chemical industry	2,191
Textile industry	18,641	Total	293,593
Food-stuffs	17,260		
Mining industry	14,037	Decrease—	
Printing	7,384	Clothing industry	24,990

11. A feature of the present situation is the very large amount of short time, which, according to the statistics compiled by the trade unions, was 21.6 per cent. in September 1931 as against 14.5 per cent. a year ago. The 'Frankfurter Zeitung' estimates that about one-third of the total workers employed are working short time.

12. It is seen from statistics compiled by the Market Research Board that at the end of September only about 50 per cent. of the place capacity in industry was actually filled, and that the number of hours worked has gradually declined up to September 1931 to 43 per cent. of the total capacity. In both cases the percentage is lower in industries working for production (heavy industries, metal foundries and rolling mills, engineering, electro-technical industries, construction of vehicles, building trade and affiliated industries) than in industries manufacturing articles for consumption.

Wages

13. Another result of the economic depression is that a large proportion of German labour is involved in disputes. The wage tariffs of the coal-mining and the iron and steel industries in Rhineland and Westphalia, by which about 370,000 workers are affected, will expire on the 30th November, 1931; wage agreements for clerical and technical employees in the Ruhr mining industry have also been denounced by employers with effect as from the 30th November, 1931, as well as the wages tariff for 80,000 workers employed by the Saxon metal industry. Negotiations have now been commenced in the case of the Ruhr coal-mining industry. Reduction of wages have already taken place in the metal industries in several districts of Germany, in the shipbuilding industry and for municipal workers. The tariff wages of about 30,000 workers employed by the Reich were reduced by 4.5 per cent. by an award passed on the 29th October, 1931; this reduction can be put into operation under the emergency decree of the 6th October, 1931, and will come into force, though the award has not been accepted by the workers. The trade unions are, however, disputing the legality of this measure. The wages of workers over 24 years of age employed by the Posts and Telegraphs are to be reduced by between 2 and 6 pfennigs per hour as from the 8th November, 1931, but this award also has not yet been accepted.

Bankruptcies and Protested Bills

14. At the same time a sharp rise in the already high number of bankruptcies during recent months has taken place, the October figure being 1,456, as against a monthly average of 975 in 1930. The number of protested bills rose to 9,500 in October 1931, as against a monthly average of 7,700 in 1930. Each bankruptcy throws further stocks of goods on the market at rubbish prices, and so cuts into the sales of still solvent concerns which can no longer produce at a profit, even with lower wages. So the vicious spiral of deflation produces further bankruptcies, and the home trade dwindles to the point of collapse.

Symptoms of Deflation

15. This process of deflation is bringing forth the usual phenomena. Leading concerns throughout the country are announcing the reduction of their capital in varying proportions, and in some cases unpleasant transactions of the past are coming to light, such as in the Schultheiss-Patzenhofer concern, the largest brewing undertaking in Germany. In this way not only the investments in so-called rationalisation, which in Germany is now seen to have been chiefly expansion of productive capacity beyond all reasonable probability of demand, but also the exaggerated values entered in the gold balance sheets of 1924 are being written down to their proper level. According to a statement made recently by Herr Stegerwald, the Minister of Labour, scarcely more than 10,000 million marks will remain of the capital of 24,000 million marks invested in German share companies. The general nervousness and lack of confidence are increased by the suspected instability of even the largest concerns, as speculation is rife concerning the quarter in which the next breakdown will come.

Risk of Reich Guarantees

16. A most dangerous consequence of the growing shrinkage in the industrial activity of Germany depicted above arises from the very close connexion between the Reich and individual branches of industry. Special interests have always been able to extort special favours from the Government, and these have too often taken the form of direct or indirect cash subsidies or guarantees. Although from time to time pious utterances are made deploring this system, it is a very deeply rooted evil in German public finance, and on the outbreak of the financial crisis in July there was very free recourse on the part of banking and industry to State assistance. Since the Government of the Reich was itself in no position to make direct cash advances, it has operated largely by means of guarantees or by issuing in favour of individual concerns Treasury bills, on the strength of which credit can be obtained from the Reichsbank. In many cases the Government has obtained authority to give guarantees, but no information is available as to the extent to which these authorisations have been actually utilised. It is, therefore, impossible to compile an accurate list of the commitments of the Reich, but the table at the end of this memorandum gives such information as it has been possible to collect in the absence of any official statement of the present position. The table shows that the Reich has given Treasury bills for 525 million reichsmarks and guarantees for nearly 2,800 million reichsmarks. In addition, a large amount has actually been guaranteed under the authorisations available (head (D) of the table), though it is improbable that the full amount of these will, in fact, be utilised. On the other hand, Dr. Brüning has stated that the Reich has helped industry to a much greater extent than was known, so that a considerable sum must apparently be added to the above figures.

17. The actual and potential liabilities of the Reich to pay cash are thus dangerously high, and may well stand between 4 and 5 milliard reichsmarks. In addition, the Reich holds 80 million of the 200 million reichsmarks of the

share capital of the Akzept- und Garantie-Bank, which has rendered itself liable for well over a milliard of bills which it has endorsed and passed on to the Reichsbank for rediscounting. Any widespread failure on the part of those originally liable to meet these bills would accordingly involve the Reich in liabilities, the amount of which is quite unknown.

18. It will thus be apparent that if the process of deflation is pushed very much further, the resulting wave of bankruptcies may lead directly to the Reich being called upon to find cash to meet some of its liabilities under Treasury bills or guarantees. At the same time a further curtailment of industrial activity must cause a growing decline in the yield of revenue, making it increasingly difficult for the Reich to make both ends meet. Since the Reich cannot hope to borrow other than insignificant amounts in the present state of the capital market, it is difficult to see how it could carry on in such circumstances without seeking assistance from the Reichsbank.

19. The position of the Reichsbank is, however, already very considerably strained. Its reserve of gold and foreign exchange, after being depleted by the withdrawals in June and July, has been subjected to a further drain as a result of certain provisions of the Standstill Agreement, and on the 14th November amounted to no more than 1,190 million reichsmarks, in which are included 630 million reichsmarks borrowed under its rediscount credits. With a note circulation of 4,454 million reichsmarks, the cover has fallen to 26.7 per cent. The Reichsbank has had to extend its credit very freely in order not only to replace the volume of bank deposits lost by the withdrawal of foreign balances, but also to make possible the withdrawal of deposits from the banks and savings banks by nervous Germans, who have hoarded notes to an extent estimated at over 1 milliard reichsmarks. The Reichsbank is, therefore, far from being in a position to contemplate with equanimity further calls on it for assistance, whether directly from the Government to meet pressing needs for cash, or in connexion with schemes for the promotion of employment and business activity by public works or other governmental orders.

20. Such schemes are, in fact, advocated in order to relieve the present depression, but it is difficult to see how they can be put into operation in present circumstances without a directly inflationary use of Reichsbank credit, which would run completely counter to the existing policy of maintaining a deflationary pressure in order at all costs to push the German export trade.

Settlement of Reparation Liability and of Private Indebtedness

21. The conclusion can only be drawn that any long continuance of the present trend of economic development in Germany must lead to a condition of collapse. Revival can only come about as a result of a reversal of the present deflationary movement in the outside world, which would allow Germany to mitigate the pressure she is at present forced to exert on her industry. Meanwhile a settlement has to be made not only, as on previous occasions, of the reparation liability, but also of the whole private indebted-

ness of Germany. But according to the official communiqué issued at the conclusion of the Laval-Hoover conversations, any new agreement regarding inter-governmental obligations is to cover 'the period of the present business depression only'. If this is really maintained as regards the reparation obligations, there is serious danger of a deadlock, because now more than ever a recovery would be impossible if the people are conscious that any improvement would be immediately neutralised by an overriding obligation. This has been sufficiently proved by experience gained in the course of earlier reparations negotiations. From such information as now available here, it is to be feared, however, that for political reasons a final settlement of reparations obligations may prove impossible. If such be the case it would be of the utmost importance to ensure that Germany should enjoy absolute freedom from sudden and unexpected calls upon her resources during such period as may be fixed before the next reparations discussion takes place.

22. It should not be forgotten that if Germany is subjected to pressure which she considers intolerable, she will, in all probability, declare a moratorium for the whole of her foreign indebtedness and, while negotiations with her creditors are proceeding, will fall back upon the U.S.S.R. as a basis for raw material supply in exchange for industrial equipment. The dangers inherent in such a position, although it would not be a welcome one to Germany, are evident.

23. It seems necessary, therefore, to contemplate a settlement, covering both private and reparation obligations, which shall be based upon the facts of the German economic situation as they now exist, and not upon what they may become if a settlement is reached, such as to permit of a recovery taking place when world conditions improve. In view of the very grave issues which are at stake, it seems advisable to make a particularly careful study of the economic position of Germany and not to rely wholly upon German statistics without some corroborative evidence. The activities of the German Statistical Office since the war have not inspired confidence. This is not to say that, except in the case of the cost-of-living index—and here only as regards the elements of which it is composed—deliberate misrepresentation has been attempted, but lack of finance and of trained personnel have caused inaccuracies, and have led to figures which claim to be authoritative being built up on much too narrow a basis. In order to obtain reliable supplementary information, therefore, small expert commissions, representing the creditor countries, should spend some weeks in districts which are of major importance to German economic life, such as the Ruhr, Hamburg and Bremen, Berlin, Chemnitz, Königsberg, Breslau, Nürnberg, Stuttgart and Mannheim.

Political

24. Political considerations of any length lie outside the scope of this report, but it may be useful to refer briefly to the possible developments and their repercussions. No change of Government can, of course, alter the financial and economic factors outlined in the foregoing memorandum, but it might hasten or retard their effects.

25. All indications point at present to the development of a system under which there will only be four great parties which count, the National Socialists, the Catholic Centre, the Social Democrats and the Communists. The National Socialists are steadily absorbing the *bourgeois* parties, except the Centre, which is maintaining unmoved its traditional position. The Social Democrats are losing to the Communists and, occasionally, to a much lesser extent, to the National Socialists. Predominant sympathies in the Centre party are to the Right, though they are balanced for the present by the Catholic trade unions and the fact that the Catholic Church is still at loggerheads with the National Socialists. In the elections for the Prussian Landtag next spring very large, though probably not decisive, gains by the National Socialists must be anticipated. If so, they can hardly be kept any longer out of the Reich Government, for responsible participation in which Hitler has for months plainly been preparing his party. Despite occasional outbreaks of flamboyance, he and his supporters will probably not prove particularly intransigent once they are in the Government. Whether they would, for the sake of power, be willing to swallow a modicum of reparations, in addition to the private and commercial debts which they have repeatedly expressed their readiness to honour, is difficult to say, but it is not inconceivable. Such a remodelling of the Government would not, therefore, materially affect the considerations set out in the foregoing pages. Perhaps the greatest danger is that the Social Democrats and the Communists, who are gaining ground, might be driven to form a common front against the 'Fascist menace', which might result in a political deadlock. Such a deadlock, or a really serious Communist gain, of which there is no sign at present, would obviously minimise the chances of an economic recovery and of an acceptable settlement of Germany's public and private foreign debts.

Conclusion

26. Under these circumstances, what burdens can Germany afford to accept? It is impossible to make any positive contribution in this memorandum towards the solution of Germany's foreign debt problem, as the difficulty does not lie within herself, but rather in the attitude of some of her creditors and in her political relations with France, which are matters that lie beyond the scope of the present survey, but certain conclusions emerge clearly from the facts which have here been gathered together.

27. Since Germany's gold reserve is already below the minimum required as cover for the note issue, and since further foreign loans are not at present conceivable, payment of her obligations in gold or by new borrowing may be ruled out of consideration. The sources available to her are, therefore, her 'invisible exports', *i.e.*, income from services, shipping, &c., and her receipts from the investments of Germans abroad, plus her visible export balance. Forces beyond Germany's control make it highly improbable that the present export surplus will be maintained at anything like its present highly favourable figure, and, in any case, the effort to push exports at any price involves a policy of such sharp deflation that it may prove too much for

Germany to stand. It is necessary, therefore, in calculating the resources at Germany's disposal, to leave a very considerable margin of safety. If this can be done, and if it should prove that the total burden which Germany has to bear in meeting her liability for interest and amortisation of her long-term debts, plus the gradual repayment of part at least of her short-term credits (to which must be added any liability which may be imposed upon her for reparation), are, in fact, well within her capacity of payment, the position will be radically altered. For in such circumstances, Germany's private creditors will feel a greater assurance of being able to get repayment of their claims, and part of them at least will be willing to leave their money in Germany to obtain the high interest to be earned there, even if no new credits are forthcoming for the time being. In this way a settlement which may appear too lenient will become self-fulfilling, while a too rigorous settlement could only be self-destructive.

BERLIN, November 20, 1931.

Table of Advances and Guarantees by the Reich

	Million reichsmarks
(A) Cash Advances—	
Outstanding on the 30th October, 1930	838·0
To Railway Company for productive unemployment schemes	60·0
To industrial group for purchase of Danat Bank shares	43·7
Borsig Werke A.G. and Mansfeld A.G.	8·0
I.F. Schroeder Bank, Bremen (estimated)	25·0
Dresdner Bank in purchase of ordinary shares	22·0
	<hr/> 976·7 ¹
(B) Advances in Treasury Bills—	
Dresdner Bank for purchase of Preference shares	300·0
Dresdner Bank for assistance of Orient Bank	15·0
Landesbank der Rheinprovinz	120·0
Financing of Eastern relief	90·0
(C) Guarantees given—	
Outstanding on the 30th October, 1930	684·0
Yearly interest on Railway Preference shares (about)	76·0
Hermes Kredit-Insurance A.G.	30·0
Danat Bank—Deposit liabilities (about)	2,000·0
	<hr/> 2,790·0
(D) Guarantees which the Government is authorised to give—	
Authorisations outstanding on the 30th October, 1930	931·0
Credits for financing productive unemployment relief	300·0
Export credits	350·0
Erection of small dwellings	250·0
Immediate advances for Eastern relief	250·0
Conversion obligations under Eastern relief (a quarter of 850 million reichsmarks)	212·0
Obligations to be issued in conversion of short-term municipal debts (possibly 1,500·0 to 1,700·0)	

¹ This figure should read 996·7.

Notes¹ of a Conversation between Mr. Fencken and Captain Goering
(Received December 1)

[C 2914/11/18]

BERLIN, November 24, 1931

At luncheon yesterday I met Captain Goering, the National Socialist leader. The other persons present were Mr. Douglas Miller, American Assistant Commercial Attaché, the Berlin correspondent of the 'Chicago Tribune', a young Nazi journalist and a Nazi from party headquarters whom Goering, presumably to protect himself, brought with him although he had not been invited.

Goering was a flying ace and a leader of the famous Richthofen Squadron. His companion had also served in the same squadron. Both spoke highly of the chivalry of the English pilots during the war.

Goering did all the talking and spoke without stopping for 2½ hours. Much of this torrent of words was superficial and some of it a little wild, but Goering, like all the Nazi leaders, has thought things out more than most people believe. He is, however, considered vain and is inclined to make statements based on somewhat flimsy premises. He is relied upon to look after discipline in the party, and particularly to keep a watchful eye on unsafe young men like Goebbels, the Berlin leader.

France: Goering began by complaining about the behaviour of certain French and Belgian journalists. They were inclined, he said, to come to party headquarters with expressions of interest and friendship and then to go away and write poisonous articles. A Belgian journalist with whom he had recently had a very frank, and as he thought friendly discussion, had gone away and written a bitter and dishonest attack on himself. He could understand the attitude of the French journalists the less because of the very definite advances which the new French Ambassador, M. François-Poncet, had made since his arrival in Berlin.

Soviet Russia: Goering declared it was madness for Germany and other countries to keep on supplying the Soviet with machinery, tools etc. which were only to be used to build up exports with which it was intended to swamp the world. It was clear, however, from Goering's remarks that he greatly admired the Soviet system based on a party of permanently limited numbers, unquestioned authority of leaders and iron discipline. He mentioned this several times, though he made it perfectly clear that he detested Soviet doctrines. But he did not mention the Fascists in Italy. He thereupon drifted into some rather wild talk which I had been led to expect concerning India. Gandhi, he declared, was a Bolshevik and the whole Indian agitation had been caused by the Soviet. He regarded Russia to-day in just the same light as the Russia of pre-war times which had always been a menace to India. He took great exception to the attitude of the German press which was

¹ These notes were transmitted by Mr. Newton in a covering despatch of November 25.

inclined to regard Gandhi as a national hero. An ordered India and British control in India, he declared, were important to German interests, because otherwise Germany's share in the Indian market would be lost.

The Nazi Movement: Goering, at great length, described the movement as an attack on what he called specialisation, by which he seemed to mean a selfish individualistic materialism which expressed itself in various forms of vested interests. The German people had grown tired of the self-centred squabbles of the splinter parties which had made Marxist and Jewish control of policy in Germany possible. The Marxists were utterly unaware of Germany's strength and their only policy was to keep on giving way and making concessions. Other countries could never understand German hatred for the Eastern Jews. All the most successful Jews abroad had German names, and they were the best, but Germany was the sieve and kept the worst. The individual German should be taught to regard himself first and foremost as a German. The currents now running to waste, he said, unconsciously quoting Mr. Baldwin, should become tributary to a common purpose. Then the country could speak with a united German mind, and a stop would be put to the eternal concessions. Rather than that the hitherto disunited Germany should continue, he would prefer a communist Germany, much as he hated communism. Though aware of her technical weakness, Nazi Germany, if driven beyond a certain point, would prefer to be wiped out or scattered. The success of the unifying idea was shown by the fact that the Nazis were now sure of the support of 50 per cent. of the electorate. As yet nothing beyond this discipline and the authority and responsibility of leaders had been required and actually the party had carefully avoided tying themselves to any programme or too closely defining their real policy. A programme would only have provided points on which their enemies could concentrate and would possibly have divided the movement before it reached maturity. The 25 points programme was only the general expression of a philosophical attitude (*Weltanschauung*). It was meant for guidance, was not binding and should not be taken too literally.

But now, Goering continued, things were different. A new house with 35 rooms next to the Brown House in Munich had been acquired and selected experts were working day and night on the preparation of draft laws. These laws covered a wide field and they would have to be ready by February. (In this connexion Mr. Rowe-Dutton was recently informed by a prominent German accountant that the latter had been asked by the Brown House to prepare a draft law for the introduction of a proper system of chartered accountancy in Germany. He was going to recommend the adoption of the English system lock, stock, and barrel, and to ensure its proper introduction that large numbers of trained English accountants should be brought to Germany.)

Elections: Asked about the probable course of next year's events, Goering said that the change in the Reich Government would come before the Prussian elections. Again he mentioned February, and then added that the change in the Reich Government would lead to new elections in the Reich. The Prussian

elections could be put forward and the two elections held on the same day. Then would follow the Presidential election. But here he was not to be drawn.

Reparations: The Nazis, he said, had always drawn a sharp distinction between public and private debts. The latter they were prepared to honour, but Germany's creditors would have to be content with 'reasonable interest rates if they wanted to save their capital'. There was no money for reparations and anyway the Nazis would not accept any arrangement made by the present Brüning Government. This has since been publicly repeated by Dr. Frick but it obviously does not close the door.

Dr. Schacht: Dr. Schacht, he said, was not a member of the Party but that was not necessary. Schacht was an expert, a very great expert, and he had been wholeheartedly with the National Socialist movement so long that there was no danger of his being called a 'Septemberling'. This means that we may soon have to reckon with Schacht, and it may be that he has more political sense than we have been inclined to think.

American factories in Germany: Goering was then asked what the attitude of the party was towards the establishment of American factories in Germany. Mr. Miller explained that American factories were finding that their production costs were too high for purposes of export trade. They were now definitely contemplating establishing factories somewhere in Europe. These factories would have the advantage of the improvements and new discoveries made in America, plus the advantages of low European production costs and of being inside a European customs barrier. The American manufacturers were uncertain which country to choose. They were thinking of Belgium and Switzerland, but perhaps more definitely contemplating Germany. Goering replied that he would, of course, prefer that factories in Germany should be German-owned and German-run, but one could not always have what one wanted, and it would remain to be seen what attitude they might adopt.

After the departure of the Nazis Mr. Miller said that there were in fact already 75 American factories in Germany, some of them employing over 2,000 men. He referred to General Motors (Opel), to the participation of America up to 35 per cent. of the capital of the A.E.G., and cited Gillett [*sic*] razors as an example of the system. The Gillett Company were trying to sell their razors in Germany, but were finding it difficult, and they had acquired the leading German safety razor factory and would give it the benefit of their greater experience and would develop a specialised European trade.

The impression left upon the two Americans present and myself was that when Goering referred to coming events in February he had a quite definite date in mind. This has in it the seeds of a more immediate political crisis, for the Social Democrats, since the breakdown of the Economic Advisory Council, may decide to make the best of a bad bargain and try to thrust responsibility on to the Nazis now, before they are ready, rather than let them hatch their plans for the spring.

Mr. Newton (Berlin) to Sir J. Simon (Received December 1)

No. 967 [C 8920/11/18]

BERLIN, November 27, 1931

Sir,

I have the honour to report that the Socialist and Democratic press of the 26th November gave great prominence to the discovery by the Prussian and Reich authorities of a document considered by them to be of treasonable purport, and which they believed to be the work of a group of six Hessian National Socialists, four of whom are now members of the newly elected Landtag. The document, which appears to have been drafted by Dr. Best, legal adviser to the Hessian National Socialists, is said to have formed the chief subject of discussion at a secret meeting which was held at the house (Boxheimer Hof, near Lampertheim) of Dr. Wagner, one of the six persons concerned, in September last. This house appears incidentally to have been for some time a centre of National Socialist activity in Hesse. Those who took part in the conversations besides Dr. Wagner, the host, and Dr. Best, the lawyer, were, it is alleged, Captain Davidson, Herr Stavinoga, Captain Wassung, the leader of the Nazi Storm Divisions of Hesse, and a certain Dr. Schäfer, a convert from Socialism to Nazi-ism, who subsequently reported the whole affair to the Frankfurt police, whence the present disclosures.

2. On the 25th and 26th November the Hessian authorities, who acted throughout in close co-operation with the Prussian Government, caused a thorough search to be made in the Brown House at Darmstadt, and in the houses of the Deputies concerned, and it was officially announced on the evening of the 26th that the result had been to prove beyond a doubt the authenticity of the document, as also its authorship by Dr. Best 'and his accomplices'. The court at Leipzig had also been notified by the Prussian and Hessian Ministries of what had occurred; and the Public Prosecutor ('Oberreichsanwalt') ordered an enquiry to be made, and summoned the chief witness, Dr. Schäfer, to Leipzig for cross-examination. Dr. Best appears, in the meantime, to have admitted his authorship. He denies any treasonable intent, and declares that it was merely intended for use in case of a Communist rising.

3. The incriminating document consists of two main parts, viz.: (1) A draft of the proclamation to be made by the leaders (of the Nazi Storm Divisions) 'after the disappearance of the present State authorities and the defeat of the "Commune" '; and (2) guiding principles for the first emergency decrees to be issued under National Socialist leadership. Both productions are revolutionary in character and contemplate the existence of a state of affairs under which the executive power will be concentrated in the hands of the Storm Divisions and of the National Guards ('Landeswehren') appointed by them. The proclamation states that exceptional circumstances justify exceptional measures, and that the Storm Divisions have the right and duty to seize the executive power for the salvation of the people. Resistance is to be crushed

ruthlessly, and the death penalty is prescribed for those (a) who resist any decree by the Storm Divisions; (b) who are found after twenty-four hours to be in possession of weapons (these are to be shot at once without trial); (c) who, being public officials or workmen, offer resistance when ordered to resume work (under the new régime); (d) who offend in any way against the emergency decrees.

4. It will be seen that the effect of the above regulations would be to institute a reign of terror by the National Socialist militia.

5. The second part of the document, that containing the drafts of various emergency decrees, constitutes an economic programme, which the 'Berliner Tageblatt' describes as perhaps the most curious document in the history of the revolutionary movements of all times. By these decrees, which are of an extremely bolshevistic character, practically everything is abolished. The right to private property, the obligation to pay debts, the value of money, the value of labour, of trade and of agriculture: all are done away with in one fell swoop. The Storm Divisions obtain the right to administer the whole property of the nation, including that of each separate citizen. Until further notice, all private incomes are abolished. No interest will be paid on savings and no reward paid for work, no salary given to State employees. Food itself becomes the property of the State, and the nourishment of the nation is 'secured' by a system of food cards and people's kitchens. The system is completed by the introduction of compulsory labour for all Germans over 16 years of age. In return for their labour they receive cards which entitle them to the necessary amount of food. Only three groups of men are excluded from compulsory labour, viz., members of the Storm Divisions, officials and—Jews. The two former categories are to be fed by the State, the latter presumably to be left to starve. The draft emergency decrees also contain provision for the erection of courts-martial, in which the presiding Nazi official will apparently act as judge and jury; though in cases where the penalty is death, he must himself be a 'jurist' and must have two assistants.

6. The reactions of the Boxheim affair on the various Governments concerned, the legal authorities of the Reich, the press of the Right and of the Left, and the Nazis themselves, are many and violent. Considerable indignation is expressed in the press of the Right at the one-sided action taken by the Prussian Government in connexion with the affair. It appears that the Prussian Minister of the Interior, the Socialist Herr Severing, sent for representatives of the 'Republican' press on the evening of the 25th and gave them full particulars of the information at that time in his hands, which accounts for the fact that the Democratic press was so much better and earlier informed than that of the Right. It should be explained that the participation of the Prussian Government is due to the fact that the Nazi district of Hesse-Nassau includes a part of Prussia.

7. The indignation felt against Herr Severing was increased by a statement made by the Public Prosecutor, Dr. Werner, on the evening of the 26th, in which he denied that he was in any way responsible, as had been widely stated, for the action of the Darmstadt police in raiding the Hessian Brown

House and the houses of the suspected Deputies. He went on to warn the public against premature assumptions as to the treasonable nature of the documents in question. Basing himself on the wording of the preamble to the Boxheim proclamation (see paragraph 3 above), he pointed out that the authors of the document only appeared to contemplate taking action in the event of the present legal Government being replaced by an illegal communistic régime, and indicated that, if this were so, Herr Best's document could hardly be shown to be treasonable from the legal point of view. According to the 'Deutsche Allgemeine Zeitung', the Public Prosecutor added that he had advised Herr Severing not to make the matter public at this stage. Socialist circles are naturally furious with the Public Prosecutor for thus, as they consider, prejudicing the issue in advance, and it is rumoured that complaints against him are to be made to the competent Reich authorities. According to this evening's press, Dr. Werner has, indeed, felt it necessary to explain that he never intended to express any opinion as to what attitude would be adopted when all the evidence had been studied, but only to point out that the Boxheim proclamation was not in itself sufficient proof of treasonable intent.

8. The first instinct of the National Socialists, as evidenced by the comments of their press on the morning of the 26th, was to declare the Boxheim document a forgery. They have now been forced, in view of subsequent disclosures, to abandon this attitude, but Hitler, Goering and the Nazi headquarters in Hesse are at one in disclaiming responsibility for the alleged plan of action. A disavowal issued by the Brown House at Munich states that if the draft is genuine it must be the irresponsible work of a private individual. The communiqué adds that the almost unintelligible absurdity of the document suggests that it is the work of a Marxist spy. Captain Goering, in a parallel statement, also suggests, with special reference to Dr. Schäfer, that the document is the work of spies or *agents provocateurs*, adding that any member of the party who was concerned in its compilation would *ipso facto* forfeit his membership. Insistence is laid by Captain Goering on the determination of the party to use none but constitutional means to attain their ends, and he has assured the Reich Minister of the Interior, at Hitler's behest, that the Nazi authorities knew nothing of the Boxheim affair.

9. A few press comments may be useful. The 'Deutsche Allgemeine Zeitung', a paper which used to be considered moderate, now goes much further in defence of the Nazis than such Nationalist papers as the 'Kreuz-Zeitung', and suggests that the precipitate action taken by the Prussian Government is due to the latter's desire to cast doubt on the conversion of the Hitler movement to legal methods, thus hoping to frighten off the Centre from a *rapprochement*. Another Nationalist paper, the 'Deutsche Tageszeitung', draws attention to the inconsistency of the Boxheim doctrines with the official Nazi creed, which demands the reorganisation of property, but not its abolition. It attributes the attitude of the authorities to a desire to associate National Socialism in the eyes of peaceful citizens with 'murder, revolution, collapse, and other horrors'. The 'Deutsche Zeitung', also

Nationalist, points out that high treason consists of participation in an endeavour to alter by force the Constitution of the German Reich, or of a German State. 'So far as is known hitherto', it adds, 'there is no mention in the document involved of any such plan.'

10. Whatever the champions of the Right may say, however, the fact remains that responsible leaders of the National Socialist party were apparently coquetting with ideas which, whatever the circumstances in which they were to have been applied, are of a violently revolutionary character. This fact, the Democratic 'Berliner Tageblatt' points out, must inevitably help to discredit the professions of respect for law and order to which Herr Hitler has so often given utterance of late.

11. The 'Vossische Zeitung' says that the Boxheim document should form the signal for an organised campaign of positive resistance to National Socialist ideas. The 'Germania' (Centre party) says that, when the National Socialists claim that the document is only the work of an individual, a claim which remains to be proved, it is none the less a work which is completely in the spirit of the National Socialist organisation, and which gives a very reliable picture of the manner in which this spirit will manifest itself, once it is free to work its will. With this view many unprejudiced observers will probably agree.

12. It is interesting to compare the character of the Boxheim document with Captain Goering's remarks, reported in my despatch No. 958¹ of the 26th November, to the effect that he greatly admired the Soviet system, as apart from the Soviet doctrine. The fact that such a system should be sponsored by leading National Socialists may also give Moscow cause to reflect, as indicating that those who admire and imitate their system may yet be their bitterest enemies. On the other hand, the Soviet may, of course, share the view held by some observers here, including the Belgian Minister, that if a communistic system were once established, it would end in the acceptance of the Communist doctrine and in association with Moscow. Rumour has it that a date in view for revolutionary developments was February, a date also mentioned by Captain Goering as one when important changes were due. The fact that the Reichstag is then expected to reassemble makes it, however, natural to regard February as a critical date.

I have, &c.

B. C. NEWTON

¹ See No. 302, note 1.

No. 304

Sir R. Graham (Rome) to Sir J. Simon (Received December 1)

No. 247 Telegraphic [C 8943/11/18]

ROME, November 30, 1931

Prince Philip of Hesse (the King of Italy's son-in-law) asked to see me this morning. His Royal Highness declared that he came as a personal friend and

begged me to treat his remarks as entirely private and confidential. He said he had returned from Germany last night thoroughly convinced as was indeed everybody who realised the situation that elections in Hesse were only a foretaste of what must inevitably happen throughout Germany when the nation had an opportunity of expressing its will. Brüning Government might hold on by the skin of its teeth until the spring although this was by no means certain. There would be no trial of strength over Presidential elections as Herr Hitler desired that President Hindenburg should remain. But in Prussian elections and Reichstag elections later Hitlerites were bound to sweep the country. They would be returned to Reichstag at least 300 strong. Hitler must therefore be regarded as future head of German Government and it would be wise to recognize this. Hitler desired to visit certain of the more important European capitals in order to establish contact with foreign statesmen and explain his ideas and programme which were grossly misunderstood. He had expressed intention of paying a private visit to Rome, and Mussolini who was a true realist on hearing of it had insisted that he should come as guest of Fascist party (not of Italian Government). Hitler would arrive on December 9 but neither German Government nor German Ambassador were yet aware of impending visit. He would be the guest of Fascist party for three days and after that private guest of Prince Philip in his villa in Gardens of Villa Savoia for a week.

His Royal Highness hoped that I would come and meet him at a small private dinner. Prince Philip continued that Hitler would like to go to London if he would thereby establish contact with leading British Ministers, statesmen and other persons of interest. But he had no friends there and wished to feel sure that his visit would not be wasted. His Royal Highness suggested that it would be important from a British point of view to get into touch with him while he was still a private individual and not yet at the head of the German Government.

I thanked Prince Philip for his interesting communication but said that his suggestion raised question of considerable delicacy and difficulty. If Hitler chose to visit London that was no doubt his own affair. But contact with British Ministers and statesmen was another matter. I knew His Majesty's Government were on excellent terms with Brüning Administration and would certainly do nothing which could possibly weaken or indispose the latter. Hitler could not come to London without it being known in Press and contacts with British authorities would almost certainly give rise to misconstruction. Prince Philip admitted the difficulties but pressed his suggestion. His Royal Highness has been for some time past an ardent Hitlerite and one must therefore discount his enthusiasm, but he may have been asked to put out a feeler.

As Sir H. Rumbold was most conveniently in Rome to-day I informed him of Prince Philip's démarche. He was interested and said that he could not deny possible accuracy of His Royal Highness's forecast of the elections. He himself thought they might well bring two hundred and fifty Hitlerites to the Reichstag. He entirely concurred in my answer to Prince Philip but depre-

cated any idea of my meeting Hitler even privately. He had himself never met him. I am inclined to agree unless it is considered sufficiently worth while to ascertain something regarding Hitler's personality and plans at the risk of possible misconstruction which it would not, I think, be difficult to avoid.¹

¹ In reply to this telegram Sir R. Graham was instructed on December 3 that he should avoid any meeting with Hitler.

No. 305

Sir R. Graham (Rome) to Sir J. Simon (Received December 4)

No. 248 Telegraphic [C 9064/11/18]

My telegram No. 247.¹

ROME, December 4, 1931

I had opportunity of a talk with Signor Mussolini last night and threw out a feeler regarding Hitler. His Excellency said that nothing was more certain than that Hitler would be at the head of German Government next spring or summer² but it was equally certain that he would then put a great deal of water into his wine. Whether Hitler would be equal to the occasion was another matter. His Excellency had never met him. Signor Mussolini added 'Hitler has expressed wish to visit Rome at this moment but I considered European situation was sufficiently difficult without added complications, and I have asked him not to come.' It would seem therefore that either Prince Philip was misinformed though he was extremely positive or that wiser counsels prevailed. I expressed warm agreement with Signor Mussolini's action.

¹ No. 304.

² In a second telegram of December 4 Sir R. Graham reported that Signor Mussolini had said that 'the French would be powerless' in this event, since 'they could not embark on a fresh occupation in Germany'.

No. 306

Sir J. Simon to Lord Tyrrell (Paris)

No. 2908 [C 9063/172/62]

FOREIGN OFFICE, December 4, 1931

My Lord,

The French Ambassador called on me this evening and handed to me the enclosed note from M. Briand expounding in seven paragraphs the position of the French Government in regard to the problem of reparations. He told me that copies of the note were being contemporaneously delivered to the other Governments concerned in the matter. I asked him if this included America and Germany, and he said that he supposed so, but was not sure.

M. de Fleuriau went on to say that M. Briand contemplated that there would be a conference of Governments following as soon as possible the report of the Advisory Committee. He thought it should take place some time in

January. I asked if any proposals were being made as to the place of meeting. The Ambassador replied that Biarritz had been mentioned, but that the Germans thought this was too far away; the same would apply to Cannes. M. de Fleuriau mentioned no other place, and I gathered that this question was quite open. He added that M. Briand hoped, after we had studied his note, that there might be an opportunity for some consultation or exchange of views between the French and British Governments on the subject before the conference was held. I thanked him for his communication and promised that the note would be carefully studied without delay.

Passing to another subject, I mentioned to him his suggestion that a deputation of French experts should come over to London and see the Board of Trade next Monday on what he had described on an earlier occasion as 'commercial negotiations'. I said I was sorry if there had been any misunderstanding as to this, and he at once made light of this aspect of the matter. In order to make the position entirely plain, I gave him an aide-mémoire, of which I attach a copy.¹

M. de Fleuriau said that in the circumstances he thought that the deputation would not be coming over next week, but that he hoped that later on, say in January or February, some meetings could be arranged which would be useful. He said that he had been anxious to arrange for some such meetings last October, but could not at that time propose it on his own responsibility. If that had happened, it might have prevented action being taken which had raised trouble since—he did not tell me what he referred to. Even if such meetings did not produce agreement, they still had a valuable effect in improving our relations and might enable the avoidance of irritating and unintended consequences. The Ambassador is evidently strongly impressed with the desirability of keeping in close touch on these matters, though he realises that at the moment the suggestion of such negotiations is premature.

I am, &c.

JOHN SIMON

¹ Not printed.

ENCLOSURE IN No. 306

Le point de vue français dans la question des Réparations

Au moment où le Gouvernement allemand vient d'adresser à la Banque des Règlements Internationaux la demande de réunion du Comité Consultatif spécial prévu par le Plan Young, il convient de définir la position du Gouvernement français au regard du problème des Réparations:

1. Les grandes lignes en ont déjà été tracées dans la communication publiée à Washington, le 25 octobre, et qui a marqué la communauté de vues des Gouvernements français et américain sur les points essentiels de la question. Ce communiqué porte notamment:

'Nous avons examiné . . . l'effet de la dépression sur le règlement des dettes intergouvernementales, nous reconnaissons qu'avant l'expiration

de l'année de suspension Hoover, un arrangement couvrant la période de dépression économique peut être nécessaire, arrangement sur les termes et conditions duquel les deux Gouvernements font toutes réserves. L'initiative de cet arrangement devrait être prise par les Puissances européennes, principalement intéressées, dans le cadre des accords en vigueur avant le 1^{er} juillet 1931.'

Pour éviter tout malentendu, il convient de noter que le Mémoire remis par le Gouvernement allemand à la B.R.I., pour demander la convocation du Comité Consultatif, s'il a été soumis au préalable au Gouvernement français, n'a pas été rédigé d'accord avec ce dernier et ne l'engage pas.

Les modifications intervenues à la demande du Gouvernement français ont eu pour seul objet d'éviter que la France se trouve dans l'obligation d'élever des réserves à l'encontre de tel ou tel passage du mémorandum. Elle garde donc son entière liberté d'action et d'entente avec les autres Puissances créancières.

2. L'Allemagne demeure liée par les engagements qu'elle a librement et solennellement contractés à La Haye. La procédure exceptionnelle suggérée en juin dernier par le Président des États-Unis, sous la pression des circonstances, n'apporte, aux termes mêmes des différentes notes du Gouvernement américain, aucune atteinte à la validité des accords antérieurs. Aussi bien le communiqué de Washington prévoit-il l'ouverture des négociations 'dans le cadre des accords existants'. En recourant à la procédure instituée par le Plan Young, en vue d'obtenir, à l'expiration du Moratorium Hoover, les allègements que peuvent exiger les circonstances, le Reich a pris une initiative qui, dans son intérêt même de débiteur de bonne foi, doit écarter toute équivoque sur la validité de ce plan.

3. Dans sa demande de réunion du Comité Consultatif, le Gouvernement allemand insiste sur le fait que les facilités de paiement prévues par le Plan Young ne répondent plus à la situation actuelle.

Tout en observant que l'Allemagne porte pour une large part la responsabilité des difficultés financières dans lesquelles elle se débat, le Gouvernement français est prêt à admettre que la crise économique, dont l'amplitude et l'acuité, quelles qu'en soient les causes, dépassent toutes les prévisions, puisse motiver un aménagement également temporaire du Plan Young lié à un arrangement relatif aux dettes intergouvernementales.

Une transformation radicale du Plan Young, pour tenir compte de difficultés sérieuses, mais temporaires, ne saurait toutefois se justifier; un nouvel examen de la situation de la capacité *[sic]* de paiements permanents de l'Allemagne, à supposer qu'il soit jamais nécessaire de réviser à cet égard les conclusions du Plan Young, ne serait d'ailleurs en aucun cas possible en période de crise aiguë.

Aussi l'aménagement à intervenir devra-t-il avoir une durée à la période de dépression et, pour se tenir dans le cadre du plan, ne pas dépasser deux années, délai de moratorium maximum prévu par les accords de La Haye.

4. L'enquête du Comité Consultatif spécial pourra porter, sur les demandes du Gouvernement allemand, sur l'ensemble de la situation économique et

financière de l'Allemagne, compte tenu de tous les éléments qui l'affectent, la question des dettes privées de l'Allemagne étant un de ces éléments.

Le problème que cette dernière question soulève doit demeurer toutefois distinct de celui des Réparations et sa solution, qui incombe sur le plan privé aux débiteurs allemands et aux créanciers étrangers, relève de la compétence du Comité des Banquiers. Tout en étant traités parallèlement, ces deux problèmes ne doivent pas être confondus.

Pour sa part, la France s'est toujours gardée d'engager à courts termes, pour des montants importants, ses capitaux en Allemagne et d'assumer les risques qui étaient la contrepartie de bénéfices immédiatement recherchés. Elle ne saurait prendre aujourd'hui, à son propre compte, les conséquences d'une politique qu'elle n'a pratiquée que dans une très faible mesure.

Par ailleurs, on ne doit pas perdre de vue que le Plan Young et les accords de La Haye, en commercialisant la partie inconditionnelle des annuités de réparations, ont de ce fait assimilé cette tranche, sans en modifier l'origine, aux dettes extérieures de droit privé du Reich.

La France ne saurait accepter qu'une priorité quelconque fût attribuée au problème des dettes privées par rapport à celui des Réparations et du régime qui interviendra à l'expiration du Moratorium Hoover.

5. Aussi bien le problème à résoudre se présente-t-il, de l'avis du Gouvernement français, d'une manière plus générale.

Il s'agit de savoir si le Reich affirme sa volonté de respecter ses engagements dans toute la mesure de ses possibilités, des solutions pouvant être trouvées qui restaureront sa circulation et permettront, par là-même, la reprise de l'activité économique financière normale, non seulement en Allemagne, mais dans tous les pays intéressés.

La tâche du Comité Consultatif, conformément aux stipulations du Plan Young, consistera donc essentiellement dans l'étude approfondie de la situation allemande présente, sous l'angle, non pas de la capacité de paiement permanente, mais des possibilités de relèvement de l'Allemagne.

Cet examen, qui devra faire toute la lumière indispensable pour permettre l'adoption ultérieure de décisions graves, devra porter tant en ce moment sur les charges budgétaires, sur le poids de la Dette Publique, charges fiscales, analyse des dépenses et particulièrement des différentes catégories de subventions allouées par le Reich à l'industrie, que sur les charges de la Reichsbank et de l'industrie et sur les questions monétaires, comme l'évaluation et l'utilisation des ressources en devises de l'Allemagne et surtout des avoirs allemands à l'étranger.

Le Comité devra en définitive dégager par voie de conclusions générales les mesures à prendre par le Reich pour restaurer son crédit, les Gouvernements gardant la responsabilité du choix des décisions à prendre dans le domaine des réparations pour rendre possible la réalisation de ces mesures.

Le Gouvernement français envisage favorablement à cet effet la réunion d'une conférence intergouvernementale.

6. Si le Gouvernement français a la ferme volonté de conserver, lors de cette conférence, le solde qui doit lui revenir sur les paiements au titre du

Plan Young, pour les réparations de ses dommages de guerre, cette volonté n'exclue pas, le moment venu, la recherche, pour une durée temporaire, des modalités de paiement qui se révéleraient indispensables pour concilier les divers intérêts en présence, notamment dans la voie des réparations en nature ou sous la forme de prêts commerciaux et mobilisables consentis à l'économie allemande au moyen d'une fraction des annuités inconditionnelles dues pendant la période de dépression.

Sous cette réserve et conformément aux dispositions du Plan Young, les annuités inconditionnelles, dont le caractère tant définitif que commercial a été maintenu dans les accords de La Haye, ne sauraient être remises en question.

7. Aux termes du Mémorandum des Puissances créancières joint au Plan Young, la révision des annuités allemandes ne peut intervenir qu'en cas de réduction des dettes interalliées, cette réduction devant être bonifiée pour partie au Reich, pour partie aux Puissances créancières. Comme l'arrangement temporaire à intervenir, les conclusions des experts qui le précéderont devront être subordonnées à l'accord du Gouvernement américain pour une réduction adéquate des annuités de dettes de guerre.

Le Gouvernement français est d'ailleurs prêt à abandonner à l'Allemagne la totalité de la part lui revenant sur la bonification prévue au Plan Young, si les autres Puissances sont disposées à consentir le même sacrifice.

No. 307

Mr. Newton (Berlin) to Sir J. Simon (Received December 8)

No. 984 [C 9112/11/18]

BERLIN, *December 4, 1931*

Sir,

I have the honour to report that the sensation caused by the discovery of the publication of what is known as 'the Boxheim plan' (see Mr. Newton's despatch No. 967¹ of the 27th November) has somewhat abated, though public opinion is not altogether reassured by Hitler's repudiation of all responsibility for its authorship. It is evident that the misgivings aroused in German national circles have not yet been overcome and the National Socialist press has adopted the prudent course of striking a moderate note for the time being, in the hope that the electorate everywhere will forget the incident. Thus when Dr. Breitscheid, the Socialist leader, in his speech at a Socialist party convention on the 2nd December, declared that he did not believe in any imminent danger of a Nazi revolution, the National Socialist press gave the widest prominence to his statement under such headlines as 'Even Breitscheid does not believe in a Nazi "Putsch".' Herr Hitler is now issuing daily orders to his followers to ignore the provocative tactics of their enemies and observe a dignified bearing in view of their coming administrative responsibilities.

2. In the matter of reparations and private indebtedness the Hitlerites are

¹ No. 303.

also displaying unusual restraint. The financial expert of the party expresses himself in Hitler's organ of the 3rd December on the subject of the coming reparation discussions and on the attitude of the party to foreign debts, whether public or private. In pontifical language he asserts that the National Socialist party repudiates reparation settlements now as heretofore. But he goes on to say that Germany is prepared to consider the problems which will arise from the cessation of these payments in countries which have hitherto been in the habit of receiving them. 'We do not deny that responsible politicians will then be faced with a series of very awkward problems and Germany will not refuse to co-operate towards a solution.' He asserts that the leaders of the new Germany have, on the other hand, decided that private debts to foreign countries must be paid in full. The Nazis will, of course, he says, exact heavy penalties from those Germans who frivolously incurred those private debts and pledged Germany's good name. Those debts (the Dawes and Young loans) which constitute a form of political debts inasmuch as they arise from tribute payments will be the subject of special treatment when the Nazis come into power. The writer concludes sensibly enough by remarking that Germany can only make payments to foreign countries provided those countries will agree beforehand to accept the said payments, that is to say, accept German goods in settlement.

3. Despite the sedatives issued from Munich, the German Nationalists refuse to be reassured. On the 2nd December the Nationalist convention re-elected Herr Hugenberg to the chairmanship of the party. In the course of his speech Hugenberg made the interesting admission that the Nationalist organisations throughout the country were complaining that, despite the Harzburg alliance, the Nazis were conducting their agitation against the German National party as vigorously as before. Hugenberg advised them to defend themselves by using the same weapons and displaying the same energy as their aggressors. He went on to define the programme of the German National party in words and phrases strongly reminiscent of Hitler's recent manifesto. In fact, the burden of his speech was that the German National party was just as entitled to support from the masses as the National Socialists. The party had ceased to be a reactionary party. Indeed, he admitted that it would not pay to be reactionary now that only 9 per cent. of the population of Germany possessed incomes of over 3,000 marks, while not even 1 per cent. possessed incomes of 12,000 marks. In the subsequent discussion several speakers referred to the absurdities contained in the economic proposals of the Hitlerites and expressed the fear that the Nationalist front was being endangered by the propagation of Utopian economic plans. To these Hugenberg made no reply, but his press has admitted that the economic plans of the Nazis call for drastic revision in the interests of a united Nationalist front.

4. The immediate result of the Boxheim incident has been to strengthen the pressure on the Social Democrats and force them to continue their policy of toleration of the Brüning Cabinet. The position of the party continues to be unenviable. The new emergency decree is expected to contain measures

for the further reduction of the wages of civil servants and of all the official classes throughout the country. It is also expected to contain measures for the reduction of wages as well as proposals to render existing wage agreements 'more elastic.' The assumption that prices, including house rent and railway fares, will be lowered simultaneously is not accepted with any confidence by the Socialist rank and file. The leaders of the party are, therefore, finding the utmost difficulty in restraining their followers from supporting motions to summon the Reichstag and so jeopardise the existence of the Government. Addressing the party convention on the 2nd December, Dr. Breitscheid warned his hearers that there was no alternative to the Brüning Cabinet except a Hitler Government. Neither Hitler nor Hugenberg would respect the rights or the wage agreements of the workers once they found themselves in power. There was, of course, he declared, a limit to all things, but beyond appealing to Dr. Brüning to alter the sequence of his measures, *i.e.*, to lower prices effectively before lowering wages, Dr. Breitscheid had little to suggest. He urged the Government to display more energy in fighting the Nazi movement, which, hitherto, had only been opposed by the Left parties, although it was mainly directed against the *bourgeois* parties.

5. Despite the advances of the Hitlerites to the Centre party, the Government have not evinced any desire so far to enter into friendly relations with the Brown House. Indeed, on the 30th November, General Groener, the Minister of Defence, in his rôle as Minister of the Interior, broadcast a speech throughout Germany the tenor of which was distinctly anti-Nazi. He warned the electorate against putting their faith in wonder-workers. Nostrums to cure the country of its ills were being advertised with immense energy by some of the political parties, but centuries of experience had taught mankind that economic salvation could not be obtained overnight and that the road to recovery, weary as it was, must be followed with optimism and patience.

6. The Nazi victory at the Hessian elections, coupled with the aggressive attitude of the party in the agrarian districts, has forced Socialists and Communists to join forces in self-defence in certain areas. It is, however, too early to say whether the common danger will force the working masses to sink their differences and establish an alliance similar to that which the so-called National Opposition established at Harzburg. The tone of the Communist press remains as aggressive as ever, but it is stated that the workers themselves are becoming more reconciled in the workshops and factories.

I have, &c.

B. C. NEWTON

No. 308

Sir R. Lindsay (Washington) to Sir J. Simon (Received December 7)

No. 735 Telegraphic [C 9072/172/62]

WASHINGTON, December 6, 1931

A few days ago I spoke to Under-Secretary of State for Treasury and Under-Secretary of State for Foreign Affairs about the position that would

arise if by December 15 Congress has not passed necessary legislation respecting moratorium. They told me of course United States did not in any case expect payment but that they were seeking for some method of procedure for administration to follow by which possibility even of a technical default would be precluded. To-day Under-Secretary of State for Foreign Affairs told me they had not yet discovered any such procedure but still hoped that they might.

Position is that Congress meets on December 7 and on December 10 Under-Secretary will send special message on the moratorium, recommending necessary legislation in the strongest possible manner. This would normally allow ample time to pass the law but though the majority of Senate is certainly ready for immediate action and though passage of the necessary law within a short time is assured, the Senate rules of procedure are such that a filibuster is always possible.

Hiram Johnson has been denouncing moratorium and he with the help of one or two others might be able to delay legislation over December 15.

Mr. Castle thinks this will not happen but I think that I ought to warn you of its possibility. All other debtor countries are equally concerned except Greece whose case has been met by an arrangement with international financial commission amounting to payment from one pocket into another.

No. 309

Sir J. Simon to Lord Tyrrell (Paris)

No. 2936 [C 9205/172/62]

FOREIGN OFFICE, *December 9, 1931*

My Lord,

M. de Fleuriau came to see me this evening and handed me a note dealing with a suggestion that had been privately made by Sir Frederick Leith-Ross of a visit to Paris next week. M. Flandin had heard of this suggestion from M. Rueff, the financial attaché to the French Embassy here, and wished me to know that he approved the idea and would be glad to see Sir Frederick.

M. de Fleuriau said that the approaching conference of Governments on the subject of reparations and the production before the French Chamber of the Bill to indemnify the Bank of France against loss in respect of its London deposits made it appear that 'conversations or negotiations'—he used both words—on different financial and monetary problems would be useful.

I thanked M. de Fleuriau for his communication and said that I had observed when M. Flandin was here¹ that he had expressed on behalf of the French Government a desire for the opening of a general discussion, and that I had also noted M. Briand's wish that there should be an opportunity for some consultation or exchange of views between the French and British Governments on the subject of reparations and the approaching conference

¹ M. Flandin met Sir J. Simon and other British Ministers on November 29 in London. He discussed tariff questions and the stabilisation of the pound and explained the French point of view with regard to German reparation payments and commercial debts.

of Governments before the conference was held. I felt sure that it was of great advantage to establish contact in any way possible and I promised to report what he had said to my colleagues.

I am, &c.

JOHN SIMON

ENCLOSURE IN No. 309

Note communicated by M. de Fleuriau

Au cours de la semaine dernière, l'Attaché financier de l'Ambassade de France, M. Rueff, avait eu l'occasion d'exposer à Sir Frederick Leith-Ross la doctrine monétaire du Gouvernement français et de la Banque de France. Sir Frederick Leith-Ross avait alors exprimé son désir de se rendre à Paris afin d'y discuter les importantes questions qui venaient de lui être exposées. M. Rueff, qui était appelé à Paris par les affaires de son service, a fait connaître le désir de Sir Frederick à M. le Ministre des Finances.

Entre-temps, les événements, notamment l'approche de la Conférence relative aux Réparations, le dépôt suivi de la discussion prochaine au Parlement français d'un projet de loi concernant la Banque de France, avaient fait apparaître au Gouvernement français l'utilité de conversations ou négociations avec le Gouvernement britannique au sujet des différents problèmes financiers et monétaires qui se posent en ce moment. M. le Ministre des Finances estime que la visite à Paris de Sir Frederick Leith-Ross offre une occasion d'engager ces conversations ou négociations en faisant prendre contact aux Trésoreries française et britannique. Il accueillerait donc avec plaisir Sir Frederick Leith-Ross, si celui-ci venait un jour prochain à Paris.

Le 9 décembre 1931

No. 310

Sir R. Graham (Rome) to Sir J. Simon (Received December 10)

No. 250 Telegraphic [C 9206/7604/22]

ROME, December 9, 1931

Signor Grandi returned last night and at once saw Signor Mussolini. He sent for me this morning and said he wished me to be [? the very]¹ first to receive his impressions of his American visit and to convey them to you. Not that he had or could expect to have much to tell me. Italy's contribution towards solution of grave difficulties in which we were all now labouring must be spiritual rather than concrete. His visit to the United States had been of an essentially friendly and informative character and he had particularly wished to avoid its appearing as in any way competing or contrasting with that of M. Laval.

Signor Grandi had been astonished at the cordiality of his reception. It had exceeded all his anticipations and had increased in warmth as time went on, any discordant note which anti-Fascists had endeavoured to raise at the

¹ The text here is uncertain.

outset being quickly stifled. He attributed his success, if he could without presumption call it success, to having modelled his conduct on example set by Mr. Ramsay MacDonald and not on that of M. Laval whose rigid and narrow attitude had estranged sympathy.

Signor Grandi's visit had been divided into three parts: (1) official conversations at Washington; (2) popular manifestation at New York, Philadelphia and elsewhere; (3) five days private visit to New York to establish contact with financial, cultural and press notabilities in order to enable them better to understand Italian aims and policy.

He believed he had contributed to a better appreciation of Italian attitude as being frankly loyal and eminently pacific.

Signor Grandi's conversations with the President had rendered him frankly pessimistic as to the latter's policy. Mr. Hoover when he made his moratorium proposal had meant to go much further. But he had been deeply disappointed over European reception of his plan. There was now very little if anything to hope from him. He said Europe was very sick and that he must stand aloof and see what she would do. Signor Grandi asked whether Europe could wait? Mr. Hoover replied there were still some healthy countries and cited Great Britain and Italy, but that general atmosphere was purely 'Balkan'. Signor Grandi thought Mr. Hoover's unhelpful attitude must not depress us unduly as America was already too deeply engaged in trade¹ affairs to be able to back out. Nor did Mr. Stimson share it. Moreover, the atmospheres of Washington and New York on the subject were very divergent. Financial interests were exercising pressure and American opinion was gradually moulding itself. His visit had been useful from this point of view.

Signor Grandi had considered the subject of treaty revision too dangerous and had studiously avoided it especially with Senator Borah as he feared the use which the latter might make of any expression of opinion; but Signor Grandi's conviction was that American opinion as a whole considered conditions of what they called 'Wilson peace' to be unjust and impossible of integral and indefinite application.

On the question of reparations and debts he had told Mr. Hoover that Italy was ready to do her share in foregoing reparations in return for remission of debts. Mr. Hoover replied he would like to put things in another way. Allied sacrifice of reparations would 'most probably' lead to American remission of debts.

American anticipations regarding Disarmament Conference were extremely pessimistic, but they declared they would do their utmost and best. Signor Grandi had insisted that at least some result must and would be obtained.

Signor Grandi said rather bitterly that M. Laval had discussed naval agreement, but only from the point of view of concluding a pact *à quatre* excluding Italy. Mr. Stimson had not encouraged this idea.

Signor Grandi had been impressed by the change in American feeling towards Great Britain in contrast to that prevailing when he last visited the United States as a member of Volpi Commission. Then it was relationship

¹ This word was corrected later to 'European'.

of 'cousins'. Now it was one of loyal friendship and of sympathy for idea of an Anglo-Saxon *bloc*. Messrs. Hoover, Stimson and other authorities had expressed their delight at sweeping result of British elections which they had evidently not expected. Mr. Hoover's undoubtedly high ideals were obscured by the necessity of keeping an eye on elections and on his Western constituents.

He was much criticised on all sides and unjustly made responsible for existing difficulties. There was talk of rival Republican candidates such as Colonel [*sic*] Dawes, 'our best man'. But Signor Grandi believed Mr. Hoover's position was considerably stronger than at first sight appeared.

Finally, Signor Grandi said that he had been in the habit of writing from time to time privately to your predecessors and he asked me whether I thought you would appreciate his continuing the practice. I replied strongly in the affirmative.

No. 311

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 1287 [C 9240/11/18]

FOREIGN OFFICE, *December 11, 1931*

Sir,

Yesterday the German Ambassador had a conversation with me after his return from Berlin. He spoke with some confidence of Chancellor Brüning's political position, which he thought had improved recently, even though the forthcoming elections might give the Hitlerites an accession of strength and involve a combination of forces in which they would form a part (Hitler cannot himself be a Minister for he is Austrian born and has not been naturalised), the result, in the Ambassador's opinion, would not be a fundamental change involving the withdrawal of Brüning, and this was also President Hindenburg's opinion. The Ambassador said that he came back from Germany with a more cheerful impression, though the hardships its people were enduring, especially the middle class, were distressing.

I mentioned the approaching Disarmament Conference, and the Ambassador volunteered the observation that the date of it was not, in his personal opinion, very convenient.¹ The real view of the German Government was not averse to its postponement, though they could not make such a proposal themselves in view of the way in which such a proposal would be exploited against them on the eve of their elections. I said that I quite understood this, but that it was material to know whether, if a suggestion of postponing the conference was made from any other quarter, the German Government would profess strong opposition to postponement or whether they would accept the suggestion as reasonable. There were elections pending in France, too, and it would be a pity if the conflict between French and German views at the conference were intensified by a desire to play up to the electors in both countries. In England we were freed from immediate election anxieties, and were therefore able to take the calm view and endeavour to be helpful to the

¹ This subject is dealt with in Volume III, series 2, of this Collection.

cause of disarmament, without domestic anxieties. I said that the Ambassador must understand that we were not putting forward any suggestion of postponing the conference, but that it would be useful to know what his Government's attitude would be if such a proposal was made. It might make a great difference if we knew that the German Government, though unwilling to propose it, would not take the proposal amiss if made by others. The proposed conference of Governments in January, which was to follow the Advisory Committee's report, was very likely to occupy some time, and there was a danger of it overlapping the date proposed for the opening of the Disarmament Conference.

I asked the Ambassador if he could tell me anything as to his Government's views as to the place and date of the proposed conference of Governments next month. We agreed that places like Biarritz and Cannes were too far off; I said I understood that the Germans did not wish to go to Brussels—what, then, was the favoured place? He said that he thought the Germans would not care to go to Paris, and he supposed the French would not propose London. He thought The Hague might be the best choice, though it was expensive. As regards date, he imagined the 15th January as about the probable fixture.

I am, &c.

JOHN SIMON

No. 312

Sir R. Lindsay (Washington) to Sir J. Simon

(Received December 12)

No. 741 Telegraphic [C 9253/172/62]

WASHINGTON, December 11, 1931

My telegram No. 735.¹

I saw Under Secretary of State to-day and said it seemed to me there was no possibility of Congress taking action on moratorium proposals by December 15.

Mr. Castle made a prepared statement to me in the following sense.

Congress has been duly apprised of action necessary to complete President's proposal of a moratorium and assent of House of Representatives by December 15 is almost certain. No such possibility is foreseen as regards action before that date by the Senate, whose assent is necessary, though the President is absolutely assured of support of a majority of individual Senators, and approval of Senate as a body in a short time can be counted on. Nothing can be done with regard to the situation thus created by any executive branch of administration but though it is not possible to vary in any way the constitutional aspects of the matter it is felt that no Government can be exposed to just criticism for non-payment of instalment due on December 15.

Mr. Castle said that he was making this statement to representatives of

¹ No. 308.

any Government thus situated who made enquiry of him. Some, he said, had not enquired at all. He would prefer that this statement should not be published in any way at present as it might cause difficulties in Congress.

Inability of Senate to act is due to deadlock lasting all this week over election of a President *pro tempore* i.e. over a matter of purely domestic politics.

No. 313

Sir J. Simon to Lord Tyrrell (Paris)

No. 334 Telegraphic [C 9446/172/62]

FOREIGN OFFICE, *December 16, 1931*

Although it is generally agreed that there is to be a Conference of Governments concerned to follow as soon as possible after the Report of the Basle Advisory Committee is ready, nothing has yet been decided about the place of meeting. Your Lordship should therefore raise the matter with the French Government on the following lines. His Majesty's Government hope very much that the place of meeting may be within reasonable reach of London. We should be glad if London was chosen. Biarritz or Cannes for example would be too far off for us and, we imagine, for some other Governments. As objections suggest themselves, from the point of view of one Government or another, to various other places which have been mentioned, it seems to us that, failing London, The Hague might be the most suitable and central point.

Your Lordship should take the opportunity if possible to exchange views as to the date of meeting and any other preliminaries. We are making enquiries of France in the first place in order to learn their views before addressing ourselves elsewhere.

No. 314

Sir J. Simon to Lord Tyrrell (Paris)

No. 2979 [C 9406/172/62]

FOREIGN OFFICE, *December 16, 1931*

My Lord,

In my despatch No. 2908¹ of the 4th December I transmitted to you a copy of a note from M. Briand, entitled 'The French point of view in the Reparations Question', which the French Ambassador had left with me that evening. I now enclose a copy of a memorandum replying to M. Briand's communication, which I handed to-day to M. de Fleuriau.

2. I shall be glad if your Lordship will cause a copy of this memorandum to be delivered to the Ministry for Foreign Affairs early to-morrow morning, in order that the French officials concerned may have some opportunity of

¹ No. 306.

studying the views of His Majesty's Government before Sir F. Leith-Ross arrives in Paris to undertake conversations on financial matters with the Ministry of Finance.

I am, &c.

JOHN SIMON

ENCLOSURE IN NO. 314

Memorandum

His Majesty's Government in the United Kingdom have studied with the greatest care the memorandum stating the point of view of the French Government in regard to reparations. His Majesty's Government are deeply impressed, as no doubt are the French Government also, with the vital necessity for reaching a satisfactory settlement of the problem of reparation and war debts without delay, and they therefore welcome the full and authoritative statement of the views of the French Government and desire in reply to state their own views with equal frankness.

2. The point of view of His Majesty's Government is as follows:—

In July last the London Conference recommended that the commercial creditors of Germany should agree to maintain the volume of their existing credits to Germany and that a committee should be appointed to enquire into the further credit needs of Germany. In making this recommendation, the Governments at the same time gave the assurance that, 'in order to ensure the maintenance of the financial stability of Germany, they (the Governments) were ready to co-operate, so far as lies within their power, to restore confidence'. The conference also expressed the view that, if the measures they recommended were carried through, they would form 'a basis of more permanent action to follow'. The measures proposed by the London Conference were duly carried out; the 'Wiggin Committee' was appointed by the Bank for International Settlements and the banking credits were, on the faith of the declarations made by the London Conference, maintained at their existing volume till the 29th February, 1932, by means of the Standstill agreements.

3. In their report, the Wiggin Committee emphasised the need for the Governments to act without delay. 'We feel certain', they said, 'that the Governments' representatives at the London Conference, in taking the responsibility of recommending to the bankers of the world that they should take concerted measures to maintain the volume of the credits they had already extended to Germany, fully realised that their proposal was not a solution of the problem, but a means of gaining time, during which steps for re-establishing the credit of Germany might be taken.

'But time is short. The body of the world's commerce—whose vitality is already low—has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished; but only if the Governments of the world will realise the responsi-

bility that rests upon them and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that, before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence which is the *sine quâ non* of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.⁷

4. Subsequent events have fully confirmed the justice and urgency of this recommendation. The severity of the economic crisis, as the French Government recognise, has become greatly intensified, not only in Germany and her neighbours, but throughout the world. The collapse of credit and exchanges is rapidly leading to an economic paralysis throughout Europe. Much more far-reaching remedies are now necessary than might have sufficed a year or even six months ago. Unless confidence can be speedily restored, it is impossible to foretell what disastrous repercussions the present crisis may have on the economic structure of the civilised world.

5. The precise extent of the action to be taken by the Governments remains to be settled.

It has been agreed that in the first instance, the situation of Germany should be examined by the Special Advisory Committee provided for by the Young Plan. This committee is appointed by the governors of the Central Banks and is not responsible to the Governments or subject to their instructions, and it is for the committee to determine the procedure which it should follow in its enquiry. But His Majesty's Government are in full accord with the French Government in desiring the committee to undertake a thorough examination of all the aspects of the German financial situation without any limitation, and to recommend, with the authority that their international reputation as experts in monetary and economic affairs must command, the measures required to restore the stability of the German currency and budget and to permit the revival of normal economic and financial life both in Germany and in the rest of the world; and finally to state what steps are required, in the light of Germany's capacity of payment, to enable this result to be achieved. It will then be for the Governments concerned, bearing in mind the undertakings entered into at the London Conference, to take such decisions in regard to reparations as may make it possible for the credit of Germany to be restored.

6. Germany, of course, remains bound by The Hague Agreement, unless and until that agreement is modified by consent. But, as the French Government recognise, the economic crisis which has since developed has made the fulfilment of the Young plan, as it stands, impossible, and the question is what adaptations are necessary to meet the present situation. That question will have to be considered by the Governments in the light of the recommendations formulated by the Special Advisory Committee, and His Majesty's Government do not consider that it is right or wise to formulate limitations beforehand. It is always open to a creditor to revise a settlement which has proved

unworkable, and a wise creditor will do so betimes rather than force his debtor into liquidation. What is a sound business principle in regard to private claims is equally a necessity in regard to international claims, as the economic and financial interests of all countries are inextricably connected and the financial and economic collapse of any one nation must inevitably produce the gravest effects throughout the rest of the world.

7. Accordingly, until the report of the Advisory Committee has been received, it would be premature for the Government to formulate their views in detail. But there are certain broad principles which must, in the opinion of His Majesty's Government, be regarded as fundamental. A settlement is required which will restore the credit of Germany, and this can only be attained by an arrangement which will ensure that the governmental obligations of Germany will not endanger the economic life of the country and preclude its citizens from duly honouring obligations incurred in the ordinary course of business.

8. The foregoing considerations are in accordance with many of the principles enunciated in the French Government's memorandum. But some of the specific stipulations put forward by the French Government do not seem to be in harmony with these principles. The satisfactory reparation settlement, which it is essential to achieve without delay, cannot be secured by each creditor Power bringing to the discussion a settled series of demands before Germany's capacity of payment has been determined, in the course of an impartial enquiry into the facts by the Advisory Committee.

9. There is another aspect of this question to which His Majesty's Government desire to refer. The French Government state that it is the firm determination of France at the forthcoming conference to insist on retaining her 'solde' or surplus of reparation receipts over war debt payments. Is such a proposal calculated to appeal to the Governments to which war debts are due as a ground for reducing such debts? Is it not apparent that by the proposed arrangement France would be merely passing on to Germany any concession made to her by others without sacrificing any of her own surplus receipts?

His Majesty's Government would add that, while the Young plan allotted to certain Powers a surplus over their net war debt annuities, there is nothing in the plan which gives such surpluses any priority or preference as regards the distribution of the annuities. In so far therefore as any reparations payments are available, the grant of a priority of any kind for the French 'solde' would represent an innovation in favour of France. It would operate to the detriment of this country, and it would not be possible for any British Government to contemplate it.

10. There is one other point which His Majesty's Government must emphasise. During the past few years the United Kingdom has contributed in far larger measure than France to the maintenance of German economic life. It has done so partly by putting at the disposal of Germany commercial and banking credits, amounting altogether to close on £80 million. These credits were not speculative investments attracted by the prospects of a high return. They represent in the main the normal and ordinary means by which

international trade is carried on, and are, in fact, commercial credits of a self-liquidating character constituting the soundest type of banking security. But this country also helped German trade by offering a free market to her goods such as none of the other creditor Governments have given. Largely as a result of this policy Germany has during the past three years had a net favourable balance of trade amounting to about £100 million, if only the British exports to Germany are taken into account, and of over £50 million, if re-exports from the United Kingdom as well as British exports are included. The sterling resources thus placed at the disposal of Germany have undoubtedly contributed in no small measure to the payments which France has received for reparations. But it is not possible for this country by itself to continue indefinitely a policy of fostering international commerce; and His Majesty's Government cannot be expected to maintain a system which provides resources for the payment of reparations to France if the payment of British private claims is not to be absolutely assured.

11. His Majesty's Government have entered into these detailed explanations in response to the request of the French Government for an exchange of views. But they desire, above all, to emphasise the urgent need of a solution of the whole question of inter-governmental indebtedness which is something more than a makeshift. In their belief it is in the interests of all the nations of the world to arrive at a settlement which will relieve the exchanges from the actual and prospective risks created by the existing mass of unproductive debts. Such a settlement would, in their view, be the most practicable step that could be taken to release the world from the present economic depression. On the other hand, if such a settlement cannot be attained, that depression will continue, and must inevitably be accentuated with consequences of a social and political as well as of a financial and economic character which it would be difficult to exaggerate. The fate of Europe for many years to come may depend on the decisions to be taken by the Governments at the forthcoming conference; and His Majesty's Government consider that it is the duty of statesmen in all countries to approach the conference with the single aim of ensuring a settlement which will form a basis for restoring confidence and rebuilding prosperity.

12. His Majesty's Government have stated their views frankly, even though at some points they differ from those of the French Government, in the conviction that it is only by frankness that differing points of view can be understood and agreement reached. It will always be the desire of His Majesty's Government to co-operate closely with the French Government in dealing with the reparation problem and to endeavour by friendly discussion to reach agreement as to the best method of maintaining the peace and restoring the prosperity of Europe, which is the common aim of both countries.

FOREIGN OFFICE, *December 16, 1931*

*Sir J. Simon to Lord Tyrrell (Paris)**No. 2984 [C 9447/172/62]*FOREIGN OFFICE, *December 16, 1931*

My Lord,

I asked M. de Fleuriau to call this evening, and handed to him the memorandum (copy of which has already been sent to you in my despatch No. 2979)¹ on reparations, which had been prepared by His Majesty's Government in response to the note of M. Briand, which I received on the 4th December. I called his attention to paragraphs 11 and 12 of the memorandum, in which it is stated that we had set out our attitude in some detail in response to the request of the French Government for an exchange of views, and in which we had claimed that a frank statement, even where differences exist, would be the best way of promoting co-operation between us. M. de Fleuriau observed that, though he had not yet had the opportunity of reading our memorandum, he supposed that we were urging that a final settlement of the reparations problem should be reached at the present time. Unfortunately, this was unattainable. He himself might hold the opinion that the chapter of reparations should be closed, but French public opinion regarded reparations as providing a valuable contribution towards their budget, and, whatever opinions might be held in private, the French Ministry had to recognise this fact.

Passing to another subject, M. de Fleuriau referred to an earlier conversation in which I had raised the question of the place of meeting of the Conference of Governments, which is intended to follow upon the report of the Basle Committee. The French Government proposed Brussels. I said I had rather supposed that this selection would not be favoured by Germany, and that we had just sent instructions to you to inform the French Government that we should be glad if London was chosen, but that, failing this, The Hague seemed to us the most suitable place. M. de Fleuriau had not previously heard of the suggestion of London, but appeared to think it well worthy of consideration. London would, in fact, be much the most convenient place for British Ministers, especially if, as the French Ambassador thinks probable, the meeting begins in the middle of January. He has promised to let me know as soon as possible the French view. I explained to him that we had addressed our enquiry to France alone in the first instance. M. de Fleuriau is taking a great interest in the loan exhibition of French pictures which opens here on the 4th January, and I pointed out to him that, if London was chosen for the conference, all our visitors could enjoy the splendours of French art.

I also told him of the message which we had sent to-day to enquire of the principal Powers their views as to programme and time-table for the Disarmament Conference. I stated that the British Government had no intention of itself proposing a postponement from the 2nd February, and M. de Fleuriau said that the French Government had no such intention either. He

¹ No. 314.

agreed, however, that the date was rather unfortunate, especially as the Reparations Conference was impending. He said that when Mr. Stimson was here in July and the possibility of a postponement of the Disarmament Conference was mentioned, Mr. Stimson indicated to him that he thought the date should be kept. I said that if Germany proposed an adjournment, this might perhaps lead to postponement by general assent. I sketched out the plan of an opening stage involving a general discussion and a definition of the attitude of Governments, followed by the remitting of any conclusions reached to various committees and an adjournment of the general conference, and he told me that, judging from a letter he had just received from M. Briand, this was very much the sort of scheme which the French Government had in mind.

I am, &c.

JOHN SIMON

No. 316

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 1315 [C 9522/172/62]

FOREIGN OFFICE, *December 18, 1931*

Sir,

The German Ambassador spoke to me to-day about the place of meeting of the Reparations Conference next month. While Germany would prefer Switzerland, it was realised that this was rather far off for us, and she would agree to a town in Holland—The Hague or Amsterdam. Baron von Neurath's impression was that the French would not want to come to London and Germany did not think Brussels suitable. I told him that we had suggested London, and, failing London, The Hague, to the French Government, and were awaiting their answer. We hoped that they might perhaps agree to London, and he said that in this case he was sure Germany would be glad to come here. I am to let him know as soon as possible what is the French proposal.

Baron von Neurath asked me whether it was the fact, as stated in the press, that the British Government had delivered a note to the French Government on Reparations, and whether we were proposing to supply a copy of it to other Governments, such as his own. I replied by enquiring whether the French Government's note to which our Memorandum was an answer had been communicated to Germany, and he replied that it had not. He rather supposed that it had been supplied to America, since the first news of it had come from America. I said that it was true that we had received a note from the French setting out their point of view, on the 4th December last, and that we had, within the last day or two sent them a statement of our own attitude. We had done this because the French had asked for an exchange of views. The 'Times' summary, though not official, indicated very fairly the line we had taken, and we agreed that there was nothing very novel in it. I was sure

that the German Government would understand why we had, in the first instance, communicated with the French alone, inasmuch as it was they who had communicated to us.

I asked if he had any news about the progress of the Advisory Committee at Basle. He told me that the view taken by the German Chancellor was that it would be best for the Committee's report to consist of a statement of facts without any recommendations. Baron von Neurath did not personally hold this opinion and had expressed the contrary view to his Government. I said that it seemed to me there was a certain danger in a report without recommendations, for it might lead to the position being taken up by some Powers at the Reparations Conference that, inasmuch as the experts had made no proposals, there was no basis for discussing modifications in the Young plan. He said that he had pressed this view upon his Government, and added that it was, he believed, the view of the British Treasury. But the German Government held by the opinion that in the circumstances it was better not to press for recommendations. I gathered that his information was that the atmosphere at Basle was not very favourable to the German view of what should be done.

I am, &c.

JOHN SIMON

No. 317

Sir H. Rumbold (Berlin) to Sir J. Simon (Received December 21)

No. 1041 [C 9535/11/18]

Sir,

BERLIN, December 18, 1931

With reference to the first paragraph of your despatch No. 1287¹ of the 11th December, reporting your conversation with the German Ambassador, I have the honour to submit some observations on the questions raised therein, as well as on the general political position here. As you are aware a political truce has now been called and the political parties are observing it faithfully. The Reichstag stands adjourned, a motion to summon it having been defeated two days since by as many as 321 votes to 256. This should mark the end of the struggle for power between Hitler and Dr. Brüning, so far as the year now expiring is concerned.

2. In your despatch under reference I note that the German Ambassador alluded to 'forthcoming elections which might give the Hitlerites an accession of strength and involve a combination of forces in which they would form a part'. The Ambassador seems to take the view that the forthcoming general election in Prussia or the presidential election may lead in some way to a general election in the Reich and that this, in turn, would involve a new coalition, to which Hitler would belong. In the Ambassador's opinion, there would not be a fundamental change 'involving the withdrawal of Brüning'. All these expressions of opinion deserve consideration. They are shared in

¹ No. 311.

many quarters here, though they are naturally contested by the Moderate and Republican parties, whose fortunes are bound up with the present régime.

3. At the same time, I should indeed hesitate to forecast the course of events. When I ask Germans, on whose opinion I set store, to give me their ideas of the political trend in this country next year, they invariably reply that they would forecast the development in England, France or the United States with some degree of confidence, but that the future of this country has never been quite so obscure and so much a matter for conjecture. The course of events in Germany may, of course, be seriously affected by the outcome of the two international conferences now pending—the Reparations Conference and the Disarmament Conference. The elections in France, if they precede the Prussian election or the presidential election, may affect the political tendency here. Herr von Bülow has informed me that it has now been definitely arranged, with the knowledge of the French Government, that the Prussian elections are to take place after the French elections. Furthermore, the economic position will undoubtedly affect the issue of the Prussian elections very materially.

4. The Prussian elections are due to take place at latest by the 20th May, when the term of the present Landtag expires. President Hindenburg's term expires on the 26th April, before which date a presidential election should, theoretically, take place. In the case of the Prussian elections the date may be fixed to suit tactical considerations. The presidential election may be held simultaneously with or after the Prussian elections. President Hindenburg, were he to present himself, would no doubt be re-elected. I understand that at the moment he is strongly opposed to a further tenure of office and that his family share his view. He is 84 years of age and his position would be anything but enviable if the Hitlerites increased seriously in strength. Speculation is, therefore, rife among the Moderate parties as to the best course to adopt, and strong arguments are brought forward for some solution such as a prolongation of the present term by a year or two years in the hope that the political and economic position will by then be clarified. The Secretary of State, Herr von Bülow, who seems to envisage some such arrangement, assures me that a two-thirds majority in the Reichstag would suffice to prolong the President's term of office. I understand that the Nazis who, in October, refused to agree to a proposal to prolong President Hindenburg's term, have now come round, bringing the Nationalists with them.

5. Should an election be held, the law provides that any candidate who receives more than one-half of all the valid votes is elected. Should no such majority be obtained a second ballot must be held, whereupon the candidate who receives the greatest number of votes is elected. A month usually elapses between the two ballots. It is unlikely that any candidate, other than the field-marshal, would obtain an absolute majority. In the year 1925 he was only elected at the second ballot. If the Communists had not obscured the issue by presenting their own candidate on that occasion, Dr. Marx, of the Centre party, would have been elected. But even if a Hitlerite candidate

were elected on this occasion, it does not follow that the Government of the Reich would resign.

6. The Prussian elections are, of course, of vital importance. Hitler and his followers, encouraged by the results of the recent provincial and local elections, hope to obtain an absolute majority of the votes cast in the premier Federal State. If the tide continues to run with him, the Nazi leader may be lucky enough to obtain an absolute majority, though this is improbable. In Hesse, despite his obvious success, he only obtained 37 per cent. of all the votes cast. It is also to be observed that the Social Democrats have as yet shown no tendency to go over to Hitler. Their disgruntled followers still prefer to join the Communist party. The Centre party have likewise proved immune to the Hitlerite bacillus. All the other parties to the right of the Centre are, however, steadily being absorbed by the Nazis.

7. A Hitlerite Ministry, or a Hitlerite coalition, which is more likely, might remain in power in Prussia, which is three-fifths of Germany, for a considerable time provided it confined itself to routine administration and avoided revolutionary measures. Such a Government might prove awkward to the Government of the Reich, but it would not of necessity involve Dr. Brüning's resignation. The present Reichstag, which was elected last year, only contains 107 Nazis in a House of more than five times that number. It may be divided for practical purposes into five parties—Communists, Socialists, Centre, the *bourgeois* groups and the Nazis. Between the Centre and the Nazis there are now less than eleven groups with 160 odd members, representing *bourgeois* interests, the most important being the German National party. These small parties, whose gyrations are the despair of successive Chancellors, have Dr. Brüning's fate in their hands. They must by now be aware that a general election can only reduce their numbers still further, and it is possible that the instinct of self-preservation, in the absence of any political common sense, may induce them to keep Hitler out of power until the present Reichstag has run its course in 1934.

8. If a definitely hostile Administration were set up in Prussia, the position would undoubtedly be embarrassing to the Central Government, but the Constitution definitely lays down that the 'law of the Reich breaks that of the State'. Furthermore, in the event of obstruction by a Federal State 'the President can compel obedience with the aid of the armed forces'. In his recent speeches Herr Hitler has laid claim to a registered party strength of 700,000 and a following of 15 millions of voters. As there are 43 millions of voters in this country and as some 80 per cent. of these, or 35 millions, actually voted in September 1930, it is evident that Hitler does not as yet claim to have an absolute majority in Prussia. He is expecting fresh grist for his mill from the Reparation and Disarmament Conferences. Trimmers and office-holders, who are beginning to be anxious to be on the winning side, are promising to support him. Even Communists, who find his programme more communistic than that of Moscow, are said to be joining him. But in the main, it is the economic position of this country, necessitating as it does a continuous lowering of the standard of living and involving the maintenance

of 5 millions of unemployed workers, that is providing Hitler with a steady stream of recruits.

9. Whether the fourth emergency decree, by adopting and putting into practice the more reasonable National Socialist ideas, will have any effect on the electorate is as yet uncertain. Point 18 of the Nazi programme, calling for a reduction in prices by decree, has been satisfied by Dr. Brüning. Point 13, which calls for a challenge to trusts and cartels, has also been met. The compulsory reduction of interest rates was an idea stolen directly from Hitler's armoury. The agricultural community, who are now protected by a high tariff wall and by the quota system, have under the new decree obtained a big reduction in their interest payments as well as protection against foreclosure. They may be expected to show some degree of gratitude or less inclination to go over to the Nazi camp by the time that the Prussian election is held. That the National Socialists will, nevertheless, be the largest party in Prussia appears to be a foregone conclusion. A coalition with the Centre party would then seem inevitable, but it does not follow that such a coalition in Prussia would mean that Dr. Brüning would enter a similar coalition in the Reichstag.

10. In your despatch under reference the German Ambassador states that a Hitlerite coalition, presumably in the Reich, 'would not be a fundamental change involving the withdrawal of Dr. Brüning'. So far as one can judge by developments during the past twelve months, it is difficult to see Dr. Brüning running in harness with Hitler. If anyone has to compromise it will have to be Hitler, but Dr. Brüning might prefer to withdraw and await developments. After his repeated electoral successes Hitler and his lieutenants adopted a hectoring tone and seemed disposed for a moment to challenge the authority of the Government. The Minister of Defence reminded them that the Central Government were not without means to assert their authority. Hitler retorted by summoning the representatives of the foreign press and telling the outer world that he was on the threshold of power. The Chancellor replied by declaring that authority in the State was in the hands of the President and the Government, which would tolerate no 'shadow' Government, and he promptly ordered Hitler and his followers to discard their uniforms and badges. This order encountered prompt obedience, in conjunction with emphatic reassertions of legality from the Nazi leader himself.

11. Hitler's adoption of legality dates back some time and is mainly due to his past experience and to internal considerations. It may also be partly due to fear of foreign interference. A statement, for instance, by the French Government that a Hitlerite victory would fundamentally alter Franco-German relations would alarm the Rhineland and Western Germany. Hitler is also aware that business interests are viewing the position with alarm, that Jews and foreigners are making the necessary disposition to remove themselves and their chattels out of his reach. Now he probably foresees serious difficulty in forming a coalition in the new Prussian Landtag. The prospect of finding himself in undisputed possession of Prussia may not be so alluring as it seemed a year or two since. The economic situation is desperate. His advent to

power will only intensify the confusion. Nothing that he can do can alter the face of things at a moment's notice, and he may have decided that the time has come to discard his uniform, or at any rate don a shirt lighter in hue than the 'Brown House' regulation one.

12. Rumours have been rife for some time that all was not well within the party. There would seem to be already a moderate and an extremist section. Too much importance need not be attached to the discrepancies between Hitler's statements and those of his auxiliaries. For the moment the Nazi movement holds its followers in a grip resembling that of a religious revival. The hypnotic effect of an order from the Brown House is admitted by Hitler's enemies to be even more alarming than heretofore. Whatever his followers may say or do, the Nazi leader has only to issue a command to ensure instant obedience. He does not hesitate to contradict his lieutenants or reduce them to ridicule without in any way seeming to undermine party loyalty.

13. Should Dr. Brüning be compelled by economic developments or unforeseen political developments to throw in his hand and if the Nazis return from a general election with redoubled strength to the Reichstag, it is quite possible that the change in Government would by no means be so alarming as foreign opinion seems to forbode. Inside the party Hitler seems strong enough to be able to keep the other leaders in their places and out of the Cabinet; outside it there is a limit to what he can do. There is a German proverb which says that the soup is not eaten as hot as it is cooked. A coalition of the Right, including the Hitlerites, might prove more amenable in matters of foreign policy than the outer world suspects, and it would probably contain some of the ablest men and the best brains in the country.

14. It is true that Hitler is Austrian born, but he has lost his Austrian nationality and is a Stateless person. I am informed on good authority that his naturalisation as a German citizen, when the time comes, will present no difficulty and can be arranged at once.

I have, &c.

HORACE RUMBOLD

No. 318

Lord Tyrrell (Paris) to Sir J. Simon

No. 247: by telephone [C 9494/172/62]

PARIS, December 19, 1931. 11.45 a.m.

Your telegram No. 334¹ of December 16.

I discussed place and date of meeting of reparations conference with M. Berthelot on December 17. He was inclined to think that The Hague would be the most suitable place and M. Briand submitted this proposal to the Ministerial Council yesterday morning. The Council raised no objection in principle. It seems to be thought that a date about the middle of January would be the most convenient.

2. M. Berthelot tells me that the conciliatory and courteous tone of our memorandum on reparations is very much appreciated here.

¹ No. 313.

*Note of a Conversation of December 19 between Sir F. Leith-Ross and
M. Flandin regarding German Reparations and War Debts¹*

[C 9580/172/62]

M. Flandin began by referring to the letter² which the Prime Minister had sent to M. Laval. He (M. Flandin) had discussed the position with M. Laval and he wished to tell me frankly of the attitude of the French Government.

2. In the first place, having regard to the attitude of Congress, it was clearly impossible to arrive at any permanent settlement, and the most that could be attained was a temporary arrangement covering the period of depression.

3. I said that my Government (and public opinion felt strongly in the same sense) had hoped for a permanent settlement, but would no doubt be prepared to admit that under present conditions this would be difficult to secure. If only a temporary arrangement could be made it would be essential that the arrangement should be such as to restore confidence and leave open the door for a more permanent settlement later on.

4. M. Flandin said that he could not go beyond the two years' period contemplated in the Young plan. He was, however, prepared to admit that if the depression lasted, the position would be open to reconsideration at the end of the two years. If the situation remained as it was at present, *i.e.*, if the depression continued, the matter could then again, if necessary, be discussed by a fresh conference under that passage in the Laval-Hoover agreement relating to the period of depression. I replied that the suggestion of the two years' moratorium would be regarded in London as quite inadequate. What we had hoped for was a suspension of the German payments for at least five years. It was clearly useless to have a new makeshift which would not re-establish confidence. If it was necessary to have a shorter period than five years it would be essential to emphasise the arrangement for a reconsideration of the position which M. Laval was apparently ready to agree to, so that there should be an automatic safety-valve at the end of the period of suspension. I suggested that the minimum was to provide that reparation payments should only be resumed at the end of the period of suspension to the extent that some impartial body—perhaps the Bank of International Settlements—considered that they could be resumed without risk to the credit and currency of Germany. M. Flandin took a note of this and said that he was prepared to submit the question to the French Cabinet.

5. M. Flandin went on to say that it was quite clear that the scope of the

¹ This note was received in the Foreign Office on December 22.

² Not printed. In this letter of December 16 Mr. MacDonald thanked M. Laval for a message expressing the latter's desire for co-operation with His Majesty's Government. Mr. MacDonald hoped that the two countries would give 'a lead to the whole world by an agreed action'.

moratorium must go beyond what was provided in the Young plan. If the German Government could not pay the conditional annuity, even in marks, there could be no payment of debts to Great Britain or to the United States. On the other hand, as a corollary, something would have to be done about the unconditional annuities. The French Government had said in their note that they must retain their net surplus; but they would be prepared not to demand transfer in foreign exchange either of the conditional or unconditional annuity *except so far as required to pay war debts*, and, so far as the unconditional annuity was concerned, to agree to their reinvestment in Germany in the same conditions as those provided in the Hoover moratorium. They wished, however, to retain the possibility of taking at least a part of the unconditional annuity in deliveries in kind for public works. On this last matter, M. Flandin referred to point (c) of the Franco-American agreement of the 6th July, 1931 (for text, see footnote 1¹). I said that I thought that the British Government would be very strongly opposed to any deliveries in kind, and contemplated that for several years there would be a complete suspension of payments, though we would not object to keeping up the pretence of payment provided for under the Hoover moratorium.

6. M. Flandin then asked what was our policy in regard to the United States. I said that this was one of the questions on which we wanted to know the French views. We, ourselves, were divided between the view that we should make the best arrangement possible with America as regards our own settlement and then take steps to recover this from Europe, or to join with the rest of Europe in trying to get a general remission of debts. The latter was our traditional policy, but it seemed to us impossible to expect the United States Congress to give up debts if France were not prepared to give up her *solde*. M. Flandin suggested that the French and British Governments ought to make some enquiry of the United States Administration as to what they intended to do. I said that we had been thinking this over, but were advised that President Hoover could probably give no definite answer at present and that it might be rather inopportune to address the question to him at the present time. M. Flandin agreed that there was force in this objection and said that, so far as the French Government were concerned, they felt they could not count on anything said by Hoover or Stimson or Ogden Mills, as they apparently could not control their Congress.

7. In the circumstances M. Flandin suggested that the European debtors must discuss the position among themselves and adopt a common procedure in regard to the United States. The French Government recognised that, as regards our debt to America, we were in a particularly bad position; and they were very anxious to help us in our negotiations with America. It seemed to them essential that we should agree on the line we intended to take. France

¹ [Footnote 1 in original text.] 'The question of reparations in kind and the various technical adjustments necessitated by the putting into force of the American proposal and of the present agreement will be studied by a committee of experts nominated by the interested Powers and whose duty will be to bring the necessities of the situation into accordance with the spirit of President Hoover's proposal.'

had throughout been consistent in saying she would not pay war debts if she did not receive her reparations. Great Britain had not taken this line, and if any one country were prepared to pay America, no doubt the others would have to do the same for the sake of their credit. I asked M. Flandin what he had in mind when he said that France was anxious to help us over debts; did he mean that he contemplated some special arrangement with us, or some arrangement which would help both the United Kingdom and France? M. Flandin would not commit himself, for he said that we had not yet reached this stage of the discussion; but the French Government recognised that our war debts settlement gave us much less elasticity than France had, as we could only suspend a very small part of our debt payments to America. In general, his idea was to try and formulate some new proposition which we could put forward jointly to America.

8. In summing up the discussion, M. Flandin said that he thought all these questions must be examined very carefully. At the moment he only wanted to emphasise the great desire of the French Government to arrive at an agreement between France and the United Kingdom so as to avoid acrimonious discussion at the forthcoming conference. For this purpose each country must be prepared to consider the needs of the other country. France would do so in regard to British needs so far as she could, provided that the British Government would be equally careful of French requirements and not take action which created insuperable difficulties. I assured M. Flandin that there was no such intention at home and that we would certainly aim at co-operation with France if possible.

9. M. Flandin suggested that the best procedure would be for each of the Treasuries to put down on paper, and covering the whole situation *vis-à-vis* of Germany and of America, the draft proposals which seemed to them best to satisfy their requirements. We could then exchange these drafts and have another meeting of experts about the New Year. If the experts could not agree, it might be possible for the French and British Ministers to meet unofficially in order to get over these difficulties. I said that this seemed a very practical programme, but I warned M. Flandin that Franco-British conversations were often regarded with some suspicion by other Powers. M. Flandin said that, if the French and British experts came to an agreement, they could invite the other creditor experts to meet them in Paris before the conference. The creditor Powers would thus be able to meet Germany with a concrete proposal, which, it could be explained to Germany, was in part conditional upon concessions by America.

10. I told M. Flandin that I had come over primarily to obtain fuller information as to what the French Government proposed to do, and I should report most carefully to my Government what he had said. I feared that they might be disappointed at some of his remarks, but I should have to see what could be made of these propositions as a basis of discussion. M. Flandin finally asked me to agree with the French Treasury people on the text of a suitable communiqué (annexed).

December 20, 1931

Communiqué

During the conversations which have been taking place between the representatives of the British and French Treasuries, there has been a friendly exchange of views on the financial situation, and in particular on the problems raised by the forthcoming conference of Governments. The conversations will be pursued during the next few weeks with the object of facilitating the work of the conference by agreement between the two Governments in a spirit of mutual collaboration.

CHAPTER VI

Further negotiations with the French and Italian Governments with regard to a Naval Agreement. (March 1931—January 1932)*

No. 320

Lord Tyrrell (Paris) to Mr. A. Henderson
No. 41: Telegraphic: by telephone [A 1640/21/45]

PARIS, March 10, 1931

French Government consider it essential that Drafting Committee should meet immediately to agree final text of naval agreement. They are ready that committee should meet in London or Paris whichever is most convenient. They would be glad of an immediate expression of your views.

No. 321

Mr. A. Henderson to Lord Tyrrell (Paris)
No. 39 Telegraphic [A 1646/21/45]

FOREIGN OFFICE, March 11, 1931

Your telegram No. 41.¹

His Majesty's Government agree with the French Government that a drafting committee should meet as soon as possible to elaborate the final texts of the Naval Agreement, and they suggest that the Committee should meet in London.

As they consider it advisable that the United States and Japanese Governments should have the opportunity of being represented on the Committee, they are about to consult the Japanese Government and are already in consultation with the United States Government on the subject and are awaiting a reply from them before suggesting a date for the first meeting.

Please inform the French Government.

¹ No. 320.

No. 322

Mr. A. Henderson to Sir R. Graham (Rome)
No. 54 Telegraphic [A 1646/21/45]

FOREIGN OFFICE, March 11, 1931

Franco-Italian Naval Agreement.

The French Government suggest and His Majesty's Government agree, that a drafting committee should meet as soon as possible to elaborate the

* For the earlier history of these negotiations see Vol. I of this series.

final texts of the Naval Agreement. It is proposed that the Committee should meet in London.

His Majesty's Government consider it advisable that the United States and Japanese Governments should have the opportunity of being represented on the Committee. They are about to consult the Japanese Government and are at present in consultation with the United States Government on the subject and are awaiting a reply from them before suggesting a date for the first meeting.¹

Please inform the Italian Government and enquire whether they concur in the early formation of a drafting committee.

¹ On March 14 Sir R. Lindsay telegraphed a summary of a memorandum from Mr. Stimson to the effect that, before reaching a decision upon the question of representation on the Drafting Committee, he (Mr. Stimson) wanted Mr. Morrow to discuss informally with Mr. Henderson (a) the terms of the Franco-Italian Agreement, and (b) the question of the extension of the capital ship tonnage limits fixed by the Washington Treaty for France and Italy.

No. 323

Sir R. Graham (Rome) to Mr. A. Henderson (Received March 14)
No. 47 Telegraphic [A 1755/21/45]

ROME, March 14, 1931

Your telegram No. 54.¹

Italian Government agree that drafting Committee should meet as soon as possible in London to elaborate final texts of naval agreement. They presume that it may be taken for granted that functions of committee will be limited to putting into legal form agreement already arrived at and to studying and suggesting any possible variations of wording which may be found necessary but that committee will not be able to modify substance or bearing of clauses contained in bases of agreement which were fixed at interviews in Rome with His Majesty's Ministers.

¹ No. 322.

No. 324

Sir R. Graham (Rome) to Mr. A. Henderson (Received March 14)
No. 48 Telegraphic [A 1765/21/45]

ROME, March 14, 1931

My telegram No. 47.¹

Rosso volunteered explanation (? careful)² Italian definition of functions of drafting Committee. They are apprehensive lest proposed French translation of words 'do not intend to replace' at bottom of first page of Foreign Office print of Bases of Agreement may preclude them from laying down replacement tonnage before 1936.

¹ No. 323.

² The text here is uncertain.

*Mr. A. Henderson to Mr. Snow (Tokyo)**No. 43 Telegraphic [A 1799/21/45]*Your telegram No. 52.¹FOREIGN OFFICE, *March 17, 1931*

The Japanese Ambassador called yesterday and intimated that he had been instructed to suggest that the Drafting Committee, the first meeting of which has been arranged for March 19, should be postponed as no preliminary agreement had been reached between the interested Governments regarding the question of capital ships. His Excellency reminded me that His Majesty's Government had not yet replied to the proposal tentatively made by the Japanese Government (see your telegram No. 47).²

I replied that it would be difficult to postpone the meeting of the Committee and that it seemed to me that it would involve no commitment on the part of the Japanese Government if they were to be represented thereon with a view to the discussion of a formula to meet the point they had raised, it being understood that such a formula would be *ad referendum* to the Governments concerned. After the capital ship point had been disposed of thus, the Committee could proceed with the remaining questions raised by the Anglo-Franco-Italian Agreement. Mr. Matsudaira undertook to communicate this suggestion to his Government.

The proposal regarding capital ships is obviously not one which can be decided by His Majesty's Government alone but must be discussed with the French and Italian Governments and the forthcoming meeting will provide a good opportunity for such discussion. This has been explained to the Japanese Ambassador by Mr. Craigie but you should also explain to Vice-Minister for Foreign Affairs as he has raised the point with you.

¹ Not printed. In this telegram of March 16 Mr. Snow reported a statement by the Vice-Minister for Foreign Affairs similar to the statement by the Japanese Ambassador in paragraph 2 of No. 325.

² Not printed. In this telegram of March 10 Mr. Snow summarized the text of a memorandum which the Japanese Government were transmitting to His Majesty's Government on the question of the tonnage of capital ships and submarines laid down in the Franco-Italian Naval Agreement.

*Sir R. Vansittart to Sir R. Graham (Rome)*¹*No. 64 Telegraphic [A 1983/21/45]*FOREIGN OFFICE, *March 24, 1931*

A difficulty has occurred in regard to the amount of tonnage which France and Italy may lay down for completion in 1937, 1938 and 1939. Under the strict application of the last sentence of Article 19 of the Naval Treaty France

¹ The three telegrams, Nos. 326-8, were sent, in the absence of Mr. Henderson, with the authorization of Mr. MacDonald. Mr. MacDonald noted on a minute authorizing their despatch that he could not take responsibility 'for the precise contents'.

and Italy would only be entitled to construct some 5,000 tons each in the cruiser, destroyer and submarine categories in respect of vessels becoming over age in 1937, 1938 and 1939. This France maintains is insufficient. The point was first raised by the French representations¹ during the last visit to Paris of Mr. Henderson and Mr. Alexander (see paragraph 8 of Mr. Craigie's letter to Signor Rosso of March 2nd).

On their arrival here the French experts maintained that the proposed agreement in reality only regulates the building programmes for the years 1931 to 1934 inclusive and that the question of new construction to be laid down by France and Italy in 1934 and 1935 [*sic*] was one which would have to be decided at the 1935 Conference.

The Italian and British experts took strong exception to this interpretation of the Bases of Agreement, pointing out that the principle underlying all the negotiations had been the regulation of building programmes during the six years ending December 1936.

After prolonged discussion we have reason to think that the French might be brought to accept the formula quoted in my immediately following telegram if the Italian Government would agree to it.

We think this formula can safely be accepted for the following reasons:

(1) The first sentence down to 'Disarmament Conference of 1932' already figures in the Bases of Agreement (see paragraph 2 of Section B. c.) and presumably gives rise to no difficulty.

France can therefore in any event make an attempt at the 1932 Conference to get agreement to her laying down additional tonnage in 1935 and 1936. The only effect of the phrase at the end is to entitle her to make a similar attempt at the 1935 Conference, which of course she could do anyhow if she thought fit.

(2) The formula now proposed would result in France's hands being tied up to the end of 1936 unless she can in 1935 persuade the signatories of the London Treaty to untie them. Either Italy or any one other signatory could defeat this attempt by refusing her consent.

(3) The French experts have given us a private assurance that it is not in any case the intention of their Government to lay down during the years 1931 to 1934 all the tonnage they would be entitled to lay down (i.e. they intend in any case to 'spread' their construction to some extent).

(4) It has been made abundantly clear to the French experts here that neither His Majesty's Government nor the Italian Government can contemplate any additional French construction for 1935 and 1936. It will be seen therefore that acceptance by France of this formula would mark a great advance on her previous attitude. Italian experts however object on the ground that the last sentence of formula introduces an element of uncertainty and would prevent Italy from spreading her annual construction programmes over the whole six years as she had proposed. For the reasons given above we do not believe such apprehensions can be founded on the wording now proposed.

¹ The text here should probably read 'representatives'.

We fear that if we cannot at least meet the French to the extent of this formula, the whole agreement will be endangered, with all the incalculable political consequences which that would entail. You should therefore explain our views to Signor Grandi and urge him strongly to agree to a solution which makes no real change in the existing situation.

Unless you see objection please also deliver the following personal message to Signor Grandi from the Prime Minister as Chairman of the Conference:

'I earnestly hope that Your Excellency will see your way to join us in overcoming this final obstacle to the conclusion of our naval agreement. It is true that the obstacle was unexpected, but it was none the less real and the solution now contemplated, after prolonged negotiation, does not in practice commit either Italy or Great Britain (whose interests are identical in this matter) to anything to which they are not already committed. In any case failure at this stage would be so disastrous that we must all contribute something to avert it.'

No. 327

Sir R. Vansittart to Sir R. Graham (Rome)

No. 65 Telegraphic [A 1983/21/45]

FOREIGN OFFICE, *March 24, 1931*

My immediately preceding telegram.¹

Following is text of formula.

Subject to a general revision of the naval question in the course of the General Disarmament Conference of 1932, France and Italy may only lay down the replacement tonnage of vessels which will become over age in 1937, 1938 and 1939 in accordance with the rules laid down in Section 1 of Annex 1 to Part II of the London Naval Treaty, without prejudice to any agreement reached at the 1935 Conference.

¹ No. 326.

No. 328

Sir R. Vansittart to Sir R. Graham (Rome)

No. 66 Telegraphic [A 1983/21/45]

FOREIGN OFFICE, *March 24, 1931*

Rosso sees no objection to your speaking to Signor Grandi as proposed but particularly asked that no mention should be made of the fact that he had been consulted.

Ruspoli left last night for Rome and we fear his influence will not tend to make the Italian Government more conciliatory. Prompt action on your part is therefore desirable.

Lord Tyrrell (Paris) to Sir R. Graham (Rome)

Unnumbered:¹ Telegraphic: by telephone [A 1965 and 2456/21/45]

PARIS, March 24, 1931

Your telegram of March 23.²

Following from Secretary of State for Signor Grandi.

Please assure Signor Grandi that I have been as perturbed as he has been at differences of opinion that have arisen in regard to the interpretation of Bases of Agreement on naval question. The only course, however, is to assume that these divergent views are all held in good faith and to make a determined effort to remove them by friendly negotiation. Failure at this stage is unthinkable.

2. This method appears likely to succeed on all outstanding points, the most difficult relating to construction for 1934, 1935 and 1936, and even here agreement is in sight if Italian Government would be prepared to accept the formula quoted in Foreign Office telegram to you No. 65³ (of March 24). For the reasons given in Foreign Office telegram No. 64⁴ I hope very much that Signor Grandi will be able to do this once he has got the full facts before him. I agree with Signor Mussolini and Signor Grandi that the original French proposals (which would in effect have reduced the term for which the agreement would run from six years to four years) was entirely unacceptable, but what is now proposed is something quite different.

3. As regards the question of destroyer tonnage which you mention our view is that these destroyers are very slightly over the 600 ton line (their actual standard tonnage is about 600·4 tons) and that this brings them into the limitable category.⁵ They were so indicated in the table which we discussed with the Italian experts in Rome and we feel sure that the Italian Government will not wish at this stage to press a point which is we feel of doubtful validity. As against this the French experts seem prepared to accept in the Italian interest an interpretation of these Bases of Agreement which is not in our view or the French view justified by the text as it stands and which had not occurred either to the French or ourselves before the claim was put forward from the Italian side. I refer to the proposal that Italy should be able to take advantage of Clause B (b) of the Bases of Agreement and retain overage light surface craft *before* she takes any decision as to the construction of capital ships under Clause A 1 of that document. Our interpretation has been that Italy would only be entitled to take advantage of

¹ This telegram was drafted in the Foreign Office and telephoned to Paris where it was approved by Mr. Henderson. The telegram was then telephoned to Rome.

² Not printed. In this telegram Sir R. Graham reported that Signor Grandi had asked him to tell Mr. Henderson of his 'grave concern' over the course of the negotiations in London.

³ No. 327.

⁴ No. 326.

⁵ The reference here is to the tonnage of certain destroyers previously rated at 600 tons, and later rated at 610 tons.

Clause B (b) if she decides not to build capital ships under Clause A 1 and to the extent she decides not to do so. An acceptance of the Italian thesis on this point will offer great advantages to Italy and I hope Signor Grandi will not lose sight of this but view the situation as a whole when coming to a decision on the point mentioned in the first two paragraphs of this telegram.

No. 330

Sir R. Graham (Rome) to Mr. A. Henderson (Received March 25)

Unnumbered:¹ Telegraphic [A 2013/21/45]

ROME, March 25, 1931

Foreign Office telegram No. 64.²

I saw Minister for Foreign Affairs this morning and used every possible argument with him. I called his attention specially to reasons given for accepting formula and to messages from Prime Minister and yourself and stressed grave political issues involved. His Excellency was in a most pessimistic mood. He said Signor Mussolini's reaction to news of fresh French proposals had been extremely violent and he himself could only sympathize with it. It might be imagined that matter had gone smoothly here with regard to acceptance of Naval Agreement. This was anything but the case. He had had serious difficulties both within and outside the Chamber and with naval authorities. If he now had to go to the Senate where the next debate on the subject would take place and explain that agreement which he had defended in the Chamber had been again altered to the detriment of Italy, his position would be perfectly impossible. Finally he declared that formula would be carefully studied by himself, Signor Mussolini and naval authorities, all due weight being given to our arguments and to messages from the Prime Minister and yourself. No one realized better than he did grave issues involved. He added that Ruspoli, who arrives here tonight, might throw fresh light on the subject. This was inevitable. At the close of conversation with French Ambassador on other subjects, Minister for Foreign Affairs told him that news had been received here regarding naval negotiations in London which he and Mussolini refused to credit.

I take it that I am correct in contending that your formula would give no new advantages to France over Italy in question of fresh construction during period of agreement.³

¹ This telegram was sent as No. 5 to Paris and repeated to the Foreign Office.

² No. 326.

³ Sir R. Graham was instructed by telegram on March 26 that this contention was correct.

Lord Tyrrell (Paris) to Sir R. Vansittart¹

No. 60: Telegraphic: by telephone [A 2023/21/45]

PARIS, March 26, 1931

Following from Secretary of State.

After conversation here with representatives of the French Government the following formula has been evolved:—

‘1. France and Italy reserve their rights under article 1 of the treaty of London.

2. France and Italy can lay down from 1934 the tonnage in replacement of vessels becoming overage in 1937, 1938 and 1939.

3. As contemplated by the representatives of France, Italy and Great Britain at their meetings in Rome on February 28 and Paris on March 1, the final solution of the question whether, and if so in what manner, tonnage remaining overage on December 31, 1936, may ultimately be replaced shall be the subject of consideration by the parties to this agreement at a date to be agreed subsequent to the Disarmament Conference in 1932.

4. The present agreement is without prejudice to any decisions taken with a view to the general limitation of naval armaments by the General Disarmament Conference of 1932 as well as to any decisions of the conference [to be] held in 1935 in accordance with Article 23 of the Treaty of London.

The attitude at these conferences of the Powers signatory of the present declaration is in no way prejudiced.’

I request that you will at once communicate this formula to Signor Grandi and express to him the earnest hope that the Italian Government will accept it.

In making this communication, you may at the same time tell him that the French Government, anxious to give satisfaction to the Italian Government on a point which the latter have raised, have authorised me to inform the Italian Government, through you, of the following:—

In the Bases of Agreement it is provided that when the new capital ships are completed, the Italians have to scrap old heavy cruiser tonnage. The Italians in London asked to have the right to scrap, instead of this tonnage, light surface vessel tonnage. The French Government now accept this, on the understanding that the Italians for their part maintain their acceptance already given by their expert of the following point:—

The undertakings given regarding the characteristics of the capital ships to be completed before the end of 1936 are equally valid if those ships, instead of being completed before the end of 1936, are only *laid down* before the end of 1936.

¹ This telegram was addressed as No. 1 to Rome and repeated to the Foreign Office.

Sir R. Graham (Rome) to Mr. A. Henderson (Received March 27)
 No. 59 Telegraphic [A 2061/21/45]

ROME, March 27, 1931

I communicated second formula to Signor Grandi late yesterday evening. His Excellency had been occupied all day with Wheat Conference¹ and had had no time to consider first formula. But this was all to the good as present atmosphere here is one of intense despondency and irritation directed against ourselves rather than the French. I need hardly say that presence of Ruspoli whom naval attaché describes as 'white with anger' complicates situation and it may be assumed that Ministry of Marine and naval experts will be solidly ranged against formula. Any attempt to press for immediate answer would be to court categorical refusal. Only course is to show patience in the hope that consideration by Signor Mussolini and Signor Grandi of the whole question in its broader aspects may lead to calmer and more reasonable frame of mind. I shall not cease to bring pressure to bear on them and shall have (? chance)² of seeing Signor Mussolini this evening at a reception.

In the meantime from private soundings I have taken, Italian attitude may be summarized as follows:—

Italian Government went to extreme limit of concession to secure agreement believing that general political considerations urged by you justified them in overriding advice of their technical experts. Actual agreement reached offered only one substantial advantage viz. stabilization of naval construction till 1936. Now owing to French interpretation to which British experts are described as taking strong exception, bottom has been knocked out of agreement and formulas do little to mend matters.

When agreement was under discussion here Italians interpreted first sentence of first formula down to 'Disarmament Conference of 1932' as meaning that attempt might be made in 1932 to *scale down* French figures particularly in submarines. Now it is clear that phrase means that France will attempt to obtain increase. If she is successful Italy will be left behind or will have to join in armament race, the very contingency she has made sacrifices to avoid. It is no use saying formula only gives France the right to ask for more in 1932 or 1935. In 1932 Great Britain may have other fish to fry and there is no guarantee that she will then support Italy. If there were, . . .² another matter. But it seems not improbable for example that France will connect question with military and air disarmament and make reduction in army or air force dependent on obtaining satisfaction on naval question with the result that Italy will find herself isolated.

Italians do not put stress on question of destroyer tonnage but the fact remains that vessels tabled in one list at 600 tons suddenly appear in subsequent list at 610 tons and French attitude in this matter and on replacement question reveals a state of mind which discourages Italian Government and minimizes the whole value of agreement reached.

¹ This Conference opened in Rome on March 26.

² The text here is uncertain.

Sir R. Graham (Rome) to Mr. A. Henderson (Received March 28)
Nos. 60 and 61 Telegraphic [A 2063/21/45]

ROME, March 28, 1931

My telegram No. 59.¹

I had a short talk with Signor Mussolini this afternoon and begged him not to share in tragic attitude prevailing here regarding the new situation created, which should be ascribed rather to political difficulties in France than to less avowable motives. The new situation was no doubt unpleasant to all of us but our one and only consideration must be how to emerge from it without endangering agreement. Signor Mussolini replied that there was certainly much feeling here but that he intended to consider the situation with calmness and in all its aspects before giving an answer regarding formula. He could only say that in so far as he was concerned it appeared to him that two objects for which Italian sacrifices had been made viz. stabilising of naval construction till 1936 and new spirit which was to prevail between France and Italy had both been lost.

It was clear that the French meant to use agreement in order to scale up their construction to highest possible limit instead of scaling it down. I was at least relieved to find that His Excellency had no intention of indulging in one of his characteristic outbursts which there might have been some reason to apprehend.

¹ No. 332.

No. 334

Sir R. Graham (Rome) to Mr. A. Henderson (Received March 28)
Nos. 62 and 63 Telegraphic [A 2066/21/45]

ROME, March 28, 1931

Following is continuation of my immediately preceding telegram.¹

In the evening I saw Minister for Foreign Affairs and found him even more despondent than at our last interview. He said that in his eyes the whole value of the agreement for which he had so zealously laboured had been destroyed. It was all very well to talk of French political difficulties. He had carefully studied French press up to date and had found a general acceptance of the agreement as originally framed, without any hint of these new pretensions. In any case he had to consider his own difficulties. All the objections of naval authorities had been overridden and Italy had been forced into a course of construction wholly foreign to her true interests in order to obtain a new spirit in Franco-Italian relations. It was now quite clear that nothing of the kind could be hoped for. He had carried the Chamber with him and obtained the unprecedented record of a unanimous vote. Within a fortnight subject must be debated in the Senate.

How could he possibly appear there and defend this new agreement with-

¹ No. 333.

out cutting a ridiculous figure? Indeed he declined to do anything of the kind and had this evening placed his resignation in Signor Mussolini's hands in case the latter thought somebody more suitable could be found to undertake the task. So far his resignation had not been accepted. I used every argument with him but cannot pretend that they produced any effect. He said French Minister of Marine had already written to Italian Minister of Marine outlining programme of construction which showed that France intended to build up to full limit in the first three years. It was clear that she would (?present)¹ meetings to be held after 1932 and 1935 with an overwhelming case for increasing her figures in (?modern)¹ battleship column. He declared he felt no confidence in regard to our prospective attitude on the subject. It was doubtful whether Italy would build battleships and certainly she had no desire to construct aircraft carriers. It was far better for her to have no agreement at all and to let the French carry out their programme while herself pursuing her own of light cruisers and submarines. Signor Grandi added he had talked to Ruspoli but had found the latter in such a condition of incoherent annoyance that his advice was useless. He had therefore summoned Rosso from London. His Excellency had no wish to dramatise the situation and the whole question would be carefully considered in all its aspects. But of four formulae communicated to him (two of them from Rosso in London, the last one of which I had given him on previous night, had been the worst, and number two from Ruspoli, the best although by no means satisfactory). Signor Grandi was in such a difficult mood that it was hard to argue with him and I can only hope that reflection and possibly (?Rosso's)¹ influence may induce a calm state of things.

¹ The text here is uncertain.

No. 335

Mr. A. Henderson to Sir R. Graham (Rome)

No. 78 Telegraphic [A 2063/21/45]

Your telegrams Nos. 59, 60 and 61.¹

FOREIGN OFFICE, *March 30, 1931*

I made it clear to M. Briand that the formula which was evolved in Paris was subject not only to the assent of the Italian Government but also to that of the First Lord of the Admiralty, seeing that I had no naval experts with me in Paris. The Admiralty are not in favour of paragraph 3 of the formula as now drafted because it could be held to imply that we should be expected to settle with the French at any time between the 1932 and 1935 Conferences and independently of those Conferences the question of the ultimate replacement of France's overage tonnage. This His Majesty's Government would not be prepared to do, and we are therefore continuing discussion with the French experts here with a view to amending this part of the formula. You should so inform Signor Grandi, adding that we will let him know at once of any developments that may occur here.

¹ Nos. 332-3.

In the circumstances I agree with your view that there is nothing to be gained by pressing the Italian Government for an early reply as regards this particular formula.

No. 336

Mr. A. Henderson to Sir R. Graham (Rome)

No. 82 Telegraphic [A 2066/21/45]

FOREIGN OFFICE, *March 30, 1931*

Your telegrams Nos. 59 to 63.¹

I fully share the concern of Signor Grandi at the situation which has developed and at the interpretation of the Bases of Agreement now put forward by the French Government. You should make it clear to Signor Grandi that the formula drawn up in Paris (see my telegram No. 60²) was devised to take account of the Italian position as well as of our own and that there can of course be no question of proceeding with it if it is unacceptable to Italy. A serious misunderstanding has arisen, the Italian Government and His Majesty's Government interpreting the Bases of Agreement dealing with construction for completion after 1936 in one sense and the French Government in another sense. In view of the deplorable political effects of a breakdown of the negotiations at this stage we must clearly do everything in our power to avert it and I appeal to Signor Grandi to examine whether there is not some solution which the Italian Government would favour in preference to a rupture of negotiations. We have all of us endeavoured to be entirely frank and open in our discussions with our Italian colleagues and have been at pains to secure from the French in the course of our long discussions concessions desired by Italy and I trust that I may count on Signor Grandi's continued co-operation in the present difficult situation.

I am pained to think that any action of mine may have so embarrassed Signor Grandi as to cause him to place his resignation in Signor Mussolini's hands.

¹ Nos. 332-4.

² No. 331.

No. 337

Sir R. Graham (Rome) to Mr. A. Henderson (Received March 31)

No. 66 Telegraphic [A 2155/21/45]

ROME, *March 30, 1931*

Although the press is not allowed to mention the subject, rumours are beginning to leak out here regarding hitch in Navy agreement and I feel bound to warn you that when they are confirmed the revulsion of feeling in Italy is likely to be serious. You will therefore forgive me for speaking plainly. First hint of this hitch was conveyed to Italians by Mr. Craigie's letter¹ to Rosso received March 5. But it only referred to 1936 Conference and its full implications were not realised. Congratulatory telegrams between yourself, M. Briand and Signor Grandi had been exchanged March 1 and

¹ Not printed.

March 2. One must always allow for an element of bluff here and we may be able, although I have no certainty on the subject, to induce Italian Government to swallow a formula with possible sacrifice of Minister of Foreign Affairs in the process. You tell me that our own Admiralty have found something objectionable in last formula I was instructed to recommend. But in any case effect on Franco-Italian relations can hardly be otherwise than deplorable and our own position here will be the same as it was after Anglo-French compromise. As regards formulae we have (? told¹) Italian Government that you were as much perturbed as they were over original French proposal which reduced term of agreement from 6 to 4 years and was wholly unacceptable but that what is now proposed is only to permit French to assert a right which they could in any case have exercised in 1932 and 1935. The obvious Italian reply is that if French attach so much importance to this assertion it is that they firmly believe in 1932 and 1935 it will enable them to modify agreement in their favour. Italians ask us to excuse them if they entertain little confidence in regard to our future attitude on the subject. They would therefore prefer to face the situation now with their hands free rather than in 1932 or 1935 with them tied by an agreement which they consider contrary to their naval needs and interests. There is therefore a danger, though I hope not a serious one, of the whole agreement being jeopardized. I cannot help wondering whether M. Briand fully realises the state of feeling here. Possibly he attaches no importance to it. He has not thought it worth while to keep his Ambassador supplied with any particulars at all regarding new French proposals or formulae so that when Signor Grandi spoke to the Ambassador on the subject two days ago the latter could only profess blank ignorance and astonishment. I imagined my colleague to be informed and had purposely abstained from concerting with him in question as the idea of anything of the kind always has an unfortunate effect here. Such notices as that appearing at the bottom of paragraph 4 of page 13, the 'Times' of March 27th are to be deprecated.

I have just had a talk with Rosso who finds atmosphere here a good deal more difficult even than he expected. He has a formula which he has not yet shown to the Minister for Foreign Affairs. But he much doubts whether His Excellency will accept it and thinks that even if he does it will be turned down by the French.

¹ The text here is uncertain.

No. 338

Sir R. Graham (Rome) to Mr. A. Henderson (Received April 1)

No. 67 Telegraphic [A 2162/21/45]

ROME, March 31, 1931

Your telegram No. 78.¹

I had already cancelled this formula two days ago on a message from Mr. Craigie and I explained circumstances to Minister for Foreign Affairs tonight.

¹ No. 335.

I then read to him your telegram No. 82.¹ His Excellency was in a distinctly calmer frame of mind and I had for the first time an impression of making some headway. Presence of Signor Rosso has certainly been helpful. Minister for Foreign Affairs expressed his appreciation of terms of your telegram and asked me to assure you that he was as convinced as you were of the deplorable political effects of a breakdown of negotiations at this stage and that he would do everything he possibly could to avert it. He was at present in close consultation with Rosso on the subject and although he did not like the last formula that the latter had brought with him he hoped to be able within the next few days to make some helpful suggestion. He added that (?crystallization of)² Italian naval opinion on the question was an unfortunate complication and made the situation delicate. Admiral Sirianni with whom he had been in close terms of friendship now avoided discussions with him and had today addressed to him a formal letter declaring that Ministry of Marine considered French attitude offered an opportunity of breaking off all negotiations in the best interests of the Italian navy.

It seems that a strongly unfavourable impression has been created here by letter received by Admiral Sirianni from French Minister of Marine which foreshadows a French laying-down for this year of from 40,000 to 45,000 tons. The Italians are convinced that the French mean to complete their whole programme in the first three or four years and then appear at 1935 Conference with the argument that they must be allowed more construction in order to keep their dockyards employed. This idea is not borne out by information I have from you but it is strongly held here.

I have of course used every argument including permission to Italy to take advantage of Clause B (b) but believe it is more effective to argue on broad political lines.

¹ No. 336.

² The text here is uncertain.

No. 339

Sir R. Graham (Rome) to Mr. A. Henderson (Received April 1)

No. 68 Telegraphic [A 2174/21/45]

ROME, April 1, 1931

My telegram No. 67.¹

My French colleague has been sending strong telegrams to Paris during the last few days describing acute state of feeling here and danger of sacrificing, if not agreement, at least new spirit in Franco-Italian relations. He is convinced that M. Briand has not fully understood the situation nor realized its perils. After an urgent telephone message he came to see me at an early hour this morning and said he had received instructions from M. Briand to get into immediate touch with me to ascertain all particulars involving Italian point of view and telephone them to Paris before Cabinet council this morning. I supplemented information that I had already given to him and

¹ No. 338.

also got hold of Rosso and sent him round to French Embassy at once. It seems therefore possible that there may be some modification in French attitude which might make things easier.

No. 340

Mr. A. Henderson to Sir R. Graham (Rome)

No. 83 Telegraphic [A 2155/21/45]

FOREIGN OFFICE, *April 1, 1931*

Your telegram No. 66.¹

I feel that the Italian presentation of the case is hardly fair to us. What are the facts? At our meeting with the French on March 1 we realised for the first time that they desired to have the right of asking the 1935 Conference, if they thought fit, for additional construction before December 21, 1936. The French pointed out with some force that to preclude France from raising this question in 1935 would be in conflict with the spirit of the last sentence in the 'Bases of Agreement', namely, 'In particular no precedent is being created for the final solution of the question whether, and if so in what manner, tonnage remaining overage on 31st December, 1936, may ultimately be replaced'. In the circumstances we saw no objection to adding to the article of the agreement which was to incorporate the last sentence of Article 19 some such words as 'without prejudice to the decisions of the 1935 Conference', but we made it clear that so far as we were concerned we were not prepared to agree to France receiving such additional allowance for construction. Up to the time we left Paris we confidently assumed that France considered herself bound for six years of construction, subject only to the right to raise the question again in 1935.

This development, which occurred on the evening of March 1, was explained in a letter written to Signor Rosso on the morning of March 2.² Like ourselves, the Italian Government evidently attached little importance to this development at the time, for Signor Rosso, in his reply on this point, merely states: 'As to the questions dealt with in paragraph 8 of your letter, we concur with the British interpretation.' He goes on to say that the Italian Government have doubts about the advisability of inserting the words 'and which do not conflict with the provisions of the present arrangement', but his doubts relate to points which are quite distinct from the present controversy, and were proved during our conversations here to have had no foundation in fact. Thus the Italian Government, having exactly the same information as we had, were as little inclined as we were at that time to attach importance to the proposed addition of the words: 'without prejudice to the decisions of the 1935 Conference.'

Even after their arrival here, the Italian representatives appeared ready to accept some such formula, and it was only when Admiral Darlan unmasked his guns and declared that what he really wanted was a four years' agreement

¹ No. 337.

² Not printed.

that the Italian representatives began to see dangers in the proposed formula. Up to this point the Italian attitude and understanding of the position had been identical with our own. In the subsequent conversations we were at one with the Italians in resolutely opposing any idea of an agreement which regulated construction for less than six years, but our representatives attached less importance than did the Italian representatives to the observations of Admiral Darlan who was speaking for the French Ministry of Marine and not for the French Government. Basing themselves on the Admiral's statements, the Italians declared that even the acceptance of a six years agreement with the formula 'subject to any agreement which might be reached at the 1932 Conference' was now unacceptable to them; whereas we continued to feel that the formula was relatively harmless and certainly worth accepting for the sake of avoiding a breakdown with its political consequences. Meantime M. Massigli who at one time had held out to us hopes of being able to get the six years agreement accepted on this formula, found his task rendered more difficult by the somewhat unguarded utterances of Captain Ruspoli (speaking no doubt under considerable provocation).

The above is an exact summary of what has occurred. We have been scrupulously fair in all dealings with the Italian representatives here and, seeing that our interests were identical on this point, we had hoped that we were working throughout in close collaboration with them. The hints conveyed in this and earlier telegrams from you that we had wilfully misled the Italians are therefore all the more incomprehensible.

For the rest, we have impressed on M. Massigli the extreme delicacy of the situation in Rome as explained by you. He is leaving for Paris to-night to consult with M. Briand and will inform the latter confidentially of what you say. M. Massigli adds that the French Ambassador has meanwhile been instructed to obtain your opinion as to the position and to telegraph fully to his Government.

No. 341

Mr. A. Henderson to Sir R. Graham (Rome)

No. 86 Telegraphic [A 2201/21/45]

FOREIGN OFFICE, April 2, 1931

My telegram No. 83.¹

Following message was delivered to me today by M. de Fleuriau.

'M. Massigli has given me the message which you sent me by him.

'I am, like you, convinced that nothing would be more deplorable than a break in the efforts of the three interested Governments in the settlement of the naval question, and I know that you agree with me in thinking that every effort should be made to avoid a situation which would be susceptible to such dangerous results.

'I still think that with the good will of all a solution may be found which

¹ No. 340.

would take into consideration in a satisfactory manner the various preoccupations which were expressed during the course of the work of the experts.

'I am studying the possibility of informing you as well as our Italian colleague of the new proposals in this connexion before the end of the week. The time at our disposal is too limited to arrive at a complete agreement before Easter; but the work of the experts must be suspended during the holidays and advantage should be taken of this delay for the study of my proposals or of those which our Italian colleague may present for his part.

'It is essential, with success so near, that we should not be discouraged, and that we should harmonise our efforts in the general interests of our countries and of international peace.

'I am sending a similar telegram to Signor Grandi.

A. BRIAND.'

No. 342

Sir R. Graham (Rome) to Mr. A. Henderson (Received April 6)

No. 81 Telegraphic [A 2216/21/45]

ROME, April 5, 1931

Signor Grandi has sent me following message for you:—

Particularly intense pressure of work during the last few days has not allowed me to send you at once a direct reply to message which you were good enough to send me through your ambassador at the beginning of this week. I have however asked Sir R. Graham to transmit to you my thanks and to let you know my point of view.

The unforeseen difficulties in drafting committee which arose from French request have produced in the Prime Minister, Signor Mussolini, and myself a very painful impression since we saw placed in jeopardy the results of long efforts. I can assure you that I completely share with you your anxiety as to deplorable political effects which might result from a failure to reach agreement and that Prime Minister and I are (? doing)¹ everything possible to prevent a rupture of negotiations.

I know Sir R. Graham has already let you know how much I have appreciated your keen interest in prompt solution of difficulties which have arisen in final drafting of naval agreement. I am particularly pleased to profit by this occasion to express to you once more my pleasure at cordial collaboration in which our two Governments have been able to work in regard to this problem and also my appreciation of loyal and friendly support which you and organizations under your direction have given also in this last phase of naval discussions to policy which I have never ceased to pursue in order to obtain a friendly agreement with France. I may add that to a courteous message from M. Briand I have answered reminding him that negotiations which have taken place since last August have always had as their fundamental object stabilisation of a truce in naval armament competition

¹ The text here is uncertain.

between France and Italy by suspending for six years sterile discussions on questions of principle which had impeded complete success of naval conference in London. To attain this object Italy has made notable sacrifices accepting obligations in respect of ships of the line, accepting advantage to French of conservation of the *Jean Bart* class which ought to have been scrapped, agreeing that France should scrap old armoured cruisers instead of light ships relatively much more recent, accepting obligation to scrap old armoured cruisers on completion of ships of the line, accepting age limit of 16 instead of 12 years for her own destroyers etc., etc. Italy has allowed France all these advantages without counter concessions in order to show her own conciliatory spirit and in confidence that out of naval agreement would flow beneficial results for relations between the two countries.

Finally the whole definite and binding character of the agreement would be destroyed if France were to insist on her desire to introduce into agreement an element of uncertainty and of apprehension which would be in contradiction with the very conception of the truce in naval competition with which all the negotiations were inspired.

I concluded by addressing to M. Briand a warm appeal that he should take into account Italian aspects of the problem and prevent imperilling completion of a work destined to mark the beginning of a happier phase in Franco-Italian relations.

I have communicated to Sir R. Graham the text of my message to M. Briand so that he may bring it to your knowledge.

I have received your courteous personal letter of April 12 about the General Act of Arbitration and I hope to be able to send you an answer as soon as possible.

No. 343

Mr. A. Henderson to Sir R. Graham (Rome)

No. 104 Telegraphic [A 2376/21/45]

FOREIGN OFFICE, April 9, 1931

Following from Craigie.

Italian Ambassador has given me the following personal message from Rosso:—

‘I am able to inform you that my Government is willing to accept your formula if presented as a definite proposal of the British Government and with the clear understanding that no further changes will be admitted.’

I have asked the Ambassador to offer Rosso our warm thanks and congratulations and say that our knowledge that this formula will be acceptable, as a last resort, to the Italian Government will be very valuable.

*Mr. A. Henderson to Lord Tyrrell (Paris)**No. 792 [A 2260/21/45]*FOREIGN OFFICE, *April 10, 1931*

My Lord,

After the Cabinet meeting¹ which took place on March 31 I sent for M. Massigli and suggested to him that he should return to Paris with a personal message for M. Briand in the following sense.

2. He should recall to M. Briand the efforts made by His Majesty's Government in the United Kingdom to bring about an agreement; impress on him the serious effect that a breakdown at this stage would have on the political situation; point out that this was no longer a question for experts; and emphasise that it was the considered view of His Majesty's Government that the Bases of Agreement, as understood by all who were concerned in the negotiations in Paris and Rome, should be the sole basis of the work of the Drafting Committee.

3. M. Massigli accordingly left for Paris on April 1 to deliver this message.

I have, &c.

A. HENDERSON

¹This meeting discussed the position with regard to the Franco-Italian naval negotiations. Mr. Henderson's action as described in this telegram was taken at the suggestion of the Cabinet.

*Memorandum communicated by the French Ambassador¹**[A 2664/21/45]*PARIS, *April 20, 1931*

1. Au cours de la rédaction définitive de l'accord, dont les 'bases' avaient été adoptées le 1^{er} Mars dernier, des divergences de vues viennent de se manifester qui, en se prolongeant, risqueraient de mettre en péril les heureux résultats qu'après de longues et laborieuses négociations il était légitime de considérer comme acquis. Le Gouvernement de la République n'avait pas été le dernier à se réjouir de l'entente réalisée, et il en attendait, dans l'intérêt commun, de bienfaisants effets: raisons suffisantes pour qu'il se considère aujourd'hui autorisé à attirer l'attention des Gouvernements britannique et italien sur la situation qui se trouve maintenant créée et à laquelle il importe de remédier sans retard. Convaincu que les sentiments qui l'inspirent sont partagés à Londres et à Rome, il exposera en toute franchise les termes du problème et la solution qu'il lui paraît comporter.

2. Après l'échec des négociations poursuivies à la suite de la Conférence de Londres pour réaliser une limitation des tonnages globaux des flottes italienne et française, les experts s'étaient attachés à rechercher, sur un terrain pratique, une entente plus modeste, portant simplement sur les constructions que les deux Pays pourraient achever jusqu'au 31 Décembre 1936,

¹ This memorandum was communicated on April 22.

c'est-à-dire sur les constructions qu'à cet effet, ils pourraient entreprendre au cours des années 1931, 1932, 1933, voire 1934. Telle était, en tout cas, la conviction, appuyée sur divers documents, que les experts français s'étaient sincèrement formée au cours des pourparlers engagés avec leurs collègues britanniques et qu'ils ne leur avaient pas laissé ignorer.

3. A cet effet, et sachant leurs Gouvernements soucieux d'éviter toute solution comportant un accroissement sensible du tonnage actuel des flottes, les experts, après avoir étudié diverses combinaisons, s'étaient finalement arrêtés à un système fondé sur le remplacement du tonnage vieilli; mais ils avaient vite reconnu l'impossibilité de résoudre complètement la question du remplacement de la totalité du tonnage 'hors d'âge', sous peine de se heurter aux délicates questions qui avaient fait obstacle au succès des précédentes négociations. La nécessité avait donc été reconnue de part et d'autre d'écarter des tractations actuelles le problème du remplacement du tonnage qui demeurerait 'hors d'âge' au 31 Décembre 1936: la solution en serait réservée pour les tractations ultérieures dont l'accord à conclure ne devait en rien préjuger l'issue.

4. En revanche, rien ne s'opposait à ce que fût dès maintenant réglée la mise sur cale des unités de remplacement du tonnage devenant 'hors d'âge' en 1937, 1938, 1939: les experts français accueillirent donc sans difficultés les suggestions qui leur furent faites dans ce sens.

5. A cette exception près, les 'bases d'accord' ne portaient pas sur les constructions à achever après le 1^{er} Janvier 1937. La situation qui résulterait de leur adoption ne serait donc nullement comparable à celle qu'a créée, pour les marines intéressées, la partie III du Traité de Londres. Celle-ci fixe, en effet, en ce qui concerne les trois flottes auxquelles elle s'applique et pour certaines classes de bâtiments de guerre, des limites de tonnage d'où résultent les constructions que les trois marines pourront entreprendre dans lesdites classes pendant la période couverte par le Traité. Au contraire, l'arrangement franco-italien devait porter sur les constructions que, dans toutes les classes de bâtiments de guerre, les deux Pays pourraient respectivement achever avant une date donnée: avec l'exception ci-dessus indiquée qui ne portait que sur un tonnage minime, il ne touchait pas à la question des constructions qui ne seraient achevées qu'après le 31 Décembre 1936.

6. Ce fut pour bien marquer cette différence fondamentale que, lorsque les Ministres britanniques revinrent de Rome le 1^{er} Mars, les Délégués français demandèrent à leurs collègues l'insertion, dans les 'bases d'accord', d'un amendement précisant que l'adhésion envisagée aux clauses de portée générale insérées dans la Partie III du Traité de Londres, ne pouvait viser celles des dispositions de cette Partie III qui seraient en contradiction avec les principes, ci-dessus rappelés, qui étaient à la base de l'arrangement envisagé. La suggestion fut acceptée sans difficultés: on ne pouvait donc prévoir, du côté français, les objections qu'elle allait provoquer à Rome lorsqu'elle fut communiquée au Gouvernement italien: ce sont ces objections qui se sont précisées au cours de la réunion du Comité de Rédaction et qui ont fait apparaître dans sa véritable étendue le malentendu qui avait présidé aux

pourparlers poursuivis parallèlement à Rome et à Paris. Si ce malentendu a un caractère sérieux, sa portée peut, du moins, être très exactement limitée.

* * *¹

7. Depuis la réunion du Comité de Rédaction, trois points de vue se sont opposés.

8. Du côté italien, les 'bases d'accord' ont été interprétées comme excluant toute possibilité de procéder, jusqu'au 31 Décembre 1936, à d'autres mises sur cale qu'à celles qui correspondent aux constructions pouvant être achevées avant cette date, auxquelles s'ajouteraient celles qu'autorise l'Article I du Traité de Londres et celles qui sont destinées au remplacement du tonnage devenant 'hors d'âge' en 1937, 1938 et 1939.

9. Du côté français, une telle interprétation est considérée comme allant à l'encontre des dispositions du Paragraphe final des 'bases d'accord', car elle implique qu'une question qu'on a entendu réserver, est en réalité tranchée, au moins pour une période donnée. Elle interdirait, en effet, jusqu'au 1^{er} Janvier 1937, la mise sur cale d'unités destinées au remplacement du tonnage demeurant 'hors d'âge' au 31 Décembre 1936: c'est dire que ce remplacement ne saurait être, en aucun cas, commencé effectivement avant le 1^{er} Janvier 1940, alors que le paragraphe final réserve expressément les conditions et, par conséquent, la date de ce remplacement. L'effet en serait, d'autre part, de ramener la moyenne des constructions à entreprendre pendant six ans à un chiffre très voisin de celui que le Gouvernement français a toujours déclaré insuffisant pour les besoins de sa marine.

10. Entre ces deux thèses extrêmes,² on a, du côté britannique, adopté finalement une attitude intermédiaire. La question devrait être tranchée au plus tard à la Conférence dont le Traité de Londres a prévu la réunion en 1935: en l'absence d'un accord à cette Conférence, les Gouvernements demeureraient sans doute liés jusqu'au 31 Décembre 1936 et aucune construction en vue du remplacement du tonnage restant 'hors d'âge' à cette date ne pourrait être entreprise avant le 1^{er} Janvier 1937, mais il appartiendrait éventuellement à la Conférence d'autoriser certaines mises sur cale dès 1936.

11. La divergence des vues est nette; mais elle porte sur un point trop précis pour qu'un effort commun de bonne volonté ne permette pas de surmonter l'obstacle.

12. Le Gouvernement de la République a été sensible à l'objection suivant laquelle si, comme il le soutient, les termes de l'accord permettaient à la France de se faire allouer une quote-part supplémentaire de constructions nouvelles avant le 31 Décembre 1936, on introduirait dans l'arrangement un élément d'incertitude qui annulerait une partie de l'intérêt qu'il présente aux yeux du Gouvernement italien; mais il a, d'autre part, le ferme espoir que le Gouvernement italien ne méconnaît pas, de son côté, que l'interprétation

¹ These marks and those on page 404 do not indicate any omission.

² The original text included here the words 'et après avoir mis en avant une formule que le Gouvernement français aurait volontiers acceptée'. These words, which referred to the formula drawn up in Paris and subsequently withdrawn by His Majesty's Government, appear to have been deleted after a conversation of April 20 between Mr. Craigie and M. Massigli.

défendue en son nom au Comité de Rédaction préjuge, contre la thèse française, la solution d'une question expressément réservée.

13. Le problème, qui doit être résolu avec la collaboration du Gouvernement britannique, est à la fois de faire disparaître cet élément d'incertitude et de ne rien préjuger à l'encontre d'intérêts légitimes. Pour le résoudre par un équitable compromis et confiant que son appel sera entendu, le Gouvernement de la République a l'honneur de soumettre aux Gouvernements britannique et italien la proposition dont le texte suit.

14. 'Le travail de rédaction de l'accord serait poursuivi par les experts sur les bases suivantes:

(a) la question des constructions de navires limitables pouvant être achevées avant le 31 Décembre 1936 est réglée ainsi qu'il est prévu aux "bases d'accord".

(b) En ce qui concerne les constructions de navires limitables ne devant être achevées qu'après le 31 Décembre 1936, et si un règlement plus général n'est pas intervenu comme suite à la Conférence du Désarmement de 1932, aucune mise sur cale ne pourra être effectuée avant le 1^{er} juillet 1935, date à laquelle aura pu se prononcer la Conférence dont, en application de l'Article 23 du Traité de Londres, la Réunion est prévue pour le début de 1935.

A cette même date, prendront fin les effets de l'accord en ce qui concerne les mises sur cale.

Toutefois, la France et l'Italie pourront mettre sur cale, à partir du 1^{er} Janvier 1934, le tonnage de remplacement des navires qui deviendront "hors d'âge" en 1937 et 1938, ainsi que le tonnage destiné à compléter les 70,000 tonnes de bâtiments de ligne dont la construction est prévue par l'Article I du Traité de Londres.'

15. En d'autres termes, l'accord sur les constructions pouvant être *achevées* avant le 31 Décembre 1936, porterait en même temps sur l'ensemble des constructions pouvant être *entreprises* avant le 1^{er} Juillet 1935.

* * *

16. Une solution de ce genre exige sans doute, de la part des trois Gouvernements intéressés, certaines concessions par rapport à la thèse qu'ils ont jusqu'ici défendue.

17. Le Gouvernement italien devrait accepter que les dispositions de l'accord régissent, non pas toutes les constructions pouvant être entreprises par les deux Gouvernements jusqu'au 31 Décembre 1936, mais seulement celles qui seraient commencées avant le 1^{er} Juillet 1935. En revanche, se trouverait éliminée, comme le Gouvernement italien le demande, toute incertitude sur la totalité des constructions pouvant être entreprises pendant cette période.

18. Le Gouvernement français, qui considérait que les 'bases d'accord' ne faisaient pas obstacle à la mise sur cale éventuelle, dès le milieu de 1934, des constructions de remplacement du tonnage demeurant 'hors d'âge' au 31 Décembre 1936, devrait admettre qu'il ne pourrait recouvrer sa liberté à cet égard qu'au 1^{er} Juillet 1935. Il se lierait donc pour une période plus longue qu'il ne l'avait acceptée.

19. Quant au Gouvernement britannique, qui n'a jamais exclu la possibilité, pour la Conférence dont la réunion est prévue pour 1935, de décider d'autres constructions, il est vrai que, aux termes du Traité de Londres, il demeure, en tout état de cause, en ce qui concerne ses propres constructions, lié jusqu'à la fin de l'année 1936; mais il conserve, pendant toute la durée de ce Traité, le droit d'invoquer son Article 21. D'ailleurs, le risque de voir éventuellement l'Italie et la France, toutes deux unies à l'Empire britannique par les liens d'une si étroite amitié, recouvrer leur liberté quelques mois avant qu'il ne la recouvre lui-même, est-il assez sérieux, et les avantages que comporterait, en revanche, une heureuse conclusion des négociations actuelles, ne sont-ils pas assez grands pour que la Communauté de Nations Britanniques ne puisse se prêter à la solution ici proposée?

Le Gouvernement de la République a la ferme confiance que son appel sera entendu et que les Gouvernements britannique et italien, reconnaissant que la proposition qui leur est faite demande à chacune des Puissances intéressées une concession équitable, voudront permettre que s'achèvent dans un esprit de conciliation et de bonne volonté mutuelle, des négociations dont l'heureuse conclusion serait riche, pour l'avenir, de tant de promesses.

No. 346

Memorandum communicated to the French Ambassador

[A 2684/21/45]

FOREIGN OFFICE, *April 25, 1931*

His Majesty's Government in the United Kingdom have given careful consideration to the memorandum of the 20th instant setting forth the view of the French Government on the difference which has arisen on the naval question and making certain proposals for the settlement of the difficulty.

2. His Majesty's Government appreciate the clear and courteous manner in which the French point of view on this question has been set forth. They regret, however, that on a number of points their understanding of the position remains at variance with that contained in the memorandum, and, before commenting on the contents of the memorandum itself, they propose to explain as clearly and briefly as possible the point of view which has always been held by His Majesty's Government on the difference which has arisen.

3. Part III of the London Naval Treaty establishes limits, which are not to be exceeded on the 31st December, 1936, in the tonnage of the various categories. The method of determining the amount of new construction which is permissible in order that these limits should not be exceeded is based upon two main principles dealing with—

- (1) New construction of ships which may be *completed* by the 31st December, 1936.
- (2) Additional construction for the years 1934, 1935 and 1936, which is to be limited (under the last sentence of article 19) to vessels becoming

overage in 1937, 1938 and 1939 (*i.e.*, maximum tonnage which may be *under construction* on the 31st December, 1936).

The effect of these two stipulations is to limit the amount of tonnage which a contracting party may lay down during the years 1930 to 1936 inclusive.

4. Up to a relatively recent date the negotiations with France and Italy have been conducted on the assumption that these two Powers would, if the negotiations were successful, accede to Part III of the London Treaty, thus automatically limiting their new construction, during the six years of the treaty, in the same way as the members of the British Commonwealth of Nations, the United States of America and Japan have already agreed to do. In the later stages of the negotiations account had to be taken of the possibility that a separate agreement might be found a more convenient method of procedure than actual accession by France and Italy to Part III of the treaty. It was, however, never contended in any quarter that such separate agreement should for this reason cease to be a counterpart of Part III of the treaty or to embody the principles mentioned in the preceding paragraph.

5. The Bases of Agreement accordingly provide in paragraph C (a) (2) that France and Italy should accept those provisions of Part III of the treaty 'which are of general application'. Amongst these general provisions was mentioned specifically, in the course of the negotiations, the last sentence of article 19 which, as shown in paragraph 3 (2) above, restricts automatically the amount of additional tonnage which a contracting party may have *under construction* in 1936, thus definitely limiting naval construction for the period ending the 31st December, 1936. Although it was recognised that the last sentence of article 19 of the London Naval Treaty could not be inserted in the proposed agreement without some drafting amendments, the limitation in question was clearly understood to have been accepted by the French negotiators, subject to the decisions of the conference, which, under the Treaty of London, is to meet in the year 1935. So far as His Majesty's Government were aware, this French reservation in regard to the decisions of the 1935 Conference was made solely with the object of ensuring that that conference should not be held to be incompetent to consider the replacement of the retained overage tonnage. Up to the time of Mr. Henderson's and Mr. Alexander's departure from Paris on the 2nd March no hint had been received from the French Government that, failing an agreement by the 1935 Conference, they would consider themselves free to lay down any additional tonnage they thought fit during the years 1935 and 1936.

6. On the contrary, at the discussion on the 1st March the French representatives proposed that paragraph C (a) (2) should be amended by the addition of the words underlined¹ so as to read as follows:—

'(2) that they will accept, in so far as they are concerned, those provisions [of Part III of the London Naval Treaty] which are of general application and which do not conflict with the provision of the present arrangement.'

¹ These words are printed in italics.

In advancing their claims on this occasion to the above amendment it was only represented by the French negotiators, firstly, that there were certain general provisions (such as the division of combatant vessels into five categories) which were clearly not applicable to the case of France and Italy; secondly, that the last sentence of article 19 of the London Naval Treaty, if incorporated as it stood into the new agreement, might be held to prejudice the method by which the question of the replacement of retained overage was ultimately to be settled by the 1935 Conference, whereas the last sentence of the Bases of Agreement laid down that no precedent was being created for the final solution of this question. These points presented no difficulties to the United Kingdom negotiators and had no bearing on the issue subsequently raised by the French representatives on the Drafting Committee.

7. It is, furthermore, necessary to bear in mind the following important sentence in paragraph C (b) of the Bases of Agreement: 'No precedent is being created for the final solution of the question whether, and if so in what manner, tonnage remaining overage on the 31st December, 1936, may ultimately be replaced.'

8. This sentence relates to overage tonnage, the replacement of which is not provided for in the proposed agreement, and its wording, with the use of the word 'ultimately', creates a clear presumption that a start was not to be made with the replacement of this overage tonnage before the 31st December, 1936. It is in this sense that the Bases of Agreement have throughout been interpreted by His Majesty's Government.

9. Apart, however, from this presumption based on the text itself, it was always clearly understood throughout the negotiations leading up to the Bases of Agreement that the question of the replacement of retained overage tonnage was to be left over for consideration by the 1935 Conference.

10. It was only in the discussions of the Drafting Committee that it became clear for the first time that the French Government were claiming that the agreement limited only the amount of construction which France and Italy may *complete* before December 1936, and as leaving open the question of the amount of tonnage which those countries might have *under construction* on that date.

11. From the above statement it will be seen that His Majesty's Government cannot accept paragraphs 2 to 6 of the French memorandum containing a survey of the past negotiations. They reserve the right of commenting on some of the particular statements made in these paragraphs should the need arise, but they are now more concerned with the future than the past, and they accordingly desire to proceed at once with their observations on the proposals for a settlement contained in paragraphs 14 and 15 of the French memorandum.

12. The above proposals have been examined with the utmost desire to find some equitable solution of the difficulty, but to their great regret His Majesty's Government in the United Kingdom find themselves unable to accept these proposals for the following reasons:—

(1) Even on the interpretation which His Majesty's Government place

upon the Bases of Agreement, the underage figures resulting therefrom are, in some categories, considerably in excess of those to which they would have found it possible to agree during the London Naval Conference. Their acceptance of these figures in March 1931 was given solely on account of the high political importance attached to a Franco-Italian Naval Agreement, and on the understanding that no permanent ratio was being established.

In addition, and in order to overcome certain obstacles which had hitherto stood in the way of an understanding, the right of France to retain certain overage tonnage during the period of the agreement was accepted. If and when this tonnage were replaced, it would be necessary considerably to increase British tonnage in the cruiser and destroyer categories; accordingly it was laid down that the question whether this overage tonnage could be ultimately replaced was specifically reserved.

The French proposals now anticipate the laying down of replacement tonnage for these overage ships in 1935 and 1936. His Majesty's Government could not approve an agreement the obvious effect of which would be to impose the necessity of invoking article 21 of the London Naval Treaty in order largely to increase the tonnage, built and building, which has been fixed until the 31st December, 1936, by the London Naval Treaty.

- (2) The fact that under an agreement on the lines proposed in the French memorandum the size of the French building programmes of recent years would be more than maintained in the building programmes of the future constitutes a serious difficulty and might in itself necessitate the invocation of article 21 of the London Naval Treaty.

The French proposal, in fact, gives France an annual construction programme of more than 41,000 tons in all categories for the years 1931-34 inclusive, and an unknown building programme in the years 1935 and 1936. This is a larger programme than is being carried out at the present time by any other Power in the world.

- (3) Acceptance of the French proposals would seriously prejudice the British position at the 1935 Conference, since France would have a very large tonnage actually under construction, and, failing agreement at that Conference, would regain complete freedom of action in respect of new construction. His Majesty's Government, on the other hand, would remain bound until the 31st December, 1936.

13. His Majesty's Government in the United Kingdom desire to make it perfectly clear that they are ready to put into the declarations which have been under consideration by the Drafting Committee the text of the Bases of Agreement accepted by the Powers concerned on the 1st March last. In particular, His Majesty's Government abide by the clause which lays down that 'no precedent is being created for the final solution of the question whether, and if so in what manner, tonnage remaining overage on the 31st December, 1936, may ultimately be replaced'. In arriving at that agreement

they went to the utmost limit in concession, and they greatly regret that they cannot now accept a proposal which would result in France attaining a position relatively more advantageous in regard to new construction than had been contemplated by His Majesty's Government at any time.

14. They remain, however, prepared to advocate that middle course mentioned in paragraph 10 of the French memorandum which lies between the Anglo-Italian conception of the Bases of Agreement and the interpretation which the French Government now invite them to place upon that document. For this purpose they invite the French and Italian Governments to consider carefully whether a fair solution of the present difficulty could not be reached by incorporating in the proposed declarations the provisions of the last sentence of article 19 of the Treaty of London, in accordance with the following formula:—

'Subject to any further agreement limiting naval armaments which may be reached at the General Disarmament Conference of 1932, or at the Naval Conference which will take place in 1935 in accordance with article 23 of the Treaty of London, the additional tonnage which France and Italy may lay down before the 31st December, 1936, shall be the replacement tonnage of vessels which will become overage in 1937, 1938 and 1939.'¹

15. This formula makes it clear that, in the words of paragraph 10 of the French memorandum, 'it would be for the Conference [of 1935] to consider whether authority could not be given for the laying down of a certain tonnage from 1936 onwards'. But it is the earnest hope of His Majesty's Government that the annual construction accorded to France up to 1936 under the agreement as it stands, which falls short only by 5,000 tons a year of the annual construction contemplated by this country during the same period in respect of a much larger fleet, will be found in the end by the French Government to be sufficient for French needs.

16. It is the hope of His Majesty's Government that the French Government, by accepting the compromise now proposed, may thus range themselves with the other principal naval Powers in limiting their naval construction and so paving the way for the success of the General Disarmament Conference on which so many hopes are centred. If the proposal now made to the French Government may involve a retardation in the rate of naval construction originally contemplated by them, this sacrifice, together with the similar sacrifices made by the other naval Powers, will set a most valuable example at a time when preparations for the conference are being undertaken in every capital. They make a most earnest appeal to the Government of the Republic to consider the question in this wider political aspect and so enable the Powers concerned to reach that friendly settlement for which all have striven so hard.

¹ This formula was drawn up, in consultation with the Italian Legal Adviser, during the meetings of the Drafting Committee, and after His Majesty's Government had raised objections to the formula proposed in Paris. At the Drafting Committee the French representatives had been unable to accept the formula.

Memorandum communicated to the Italian Ambassador

[A 2684/21/45]

FOREIGN OFFICE, April 25, 1931

His Majesty's Government in the United Kingdom have had under their consideration the memorandum of the 20th instant in which the French Government have set forth their view on the difference which has arisen on the naval question and make certain proposals for a settlement of the difficulty. They understand that this memorandum was communicated simultaneously to the Italian Government, and they accordingly desire similarly to communicate to the Italian Government a copy of the reply which is being returned to the Government of the Republic.

2. It will be seen from this document that His Majesty's Government in the United Kingdom, while unable to accept the proposals in the French memorandum for a settlement of the present difficulty, have put forward a proposal of their own which is designed to secure a settlement following that middle course mentioned in paragraph 10 of the French memorandum as lying between the Anglo-Italian conception of the Bases of Agreement and the interpretation which the French Government place upon that document. For this purpose they suggest that the present difficulty could best be overcome by incorporating in the proposed declarations the provisions of the last sentence of article 19 of the Treaty of London in accordance with the following formula:—

'Subject to any further agreement limiting naval armaments which may be reached at the General Disarmament Conference of 1932, or at the Naval Conference which will take place in 1935 in accordance with article 23 of the Treaty of London, the additional tonnage which France and Italy may lay down before the 31st December, 1936, shall be the replacement tonnage of vessels which will become overage in 1937, 1938 and 1939.'

3. This formula makes it clear that, in the words of paragraph 10 of the French memorandum, 'it would be for the Conference [of 1935] to consider whether authority could not be given for the laying down of a certain tonnage from 1936 onwards'.

4. His Majesty's Government in the United Kingdom fully realise that, in making this suggestion, they are asking the Italian Government to depart from the attitude which they have hitherto adopted and to adopt the intermediate thesis to which reference is made above.

5. Nevertheless, they desire to express the earnest hope that, in the interests of the settlement which all parties have so much at heart, the Italian Government will see their way to make the concession which is now suggested.

Memorandum by Mr. Craigie

[A 2885/21/45]

LONDON, April 28, 1931

Senator Morrow rang me up yesterday to say that he would be here for a few days and would very much like to see me in regard to the naval question. I accordingly called on him this morning and we had a long talk.

The Senator said he had seen M. Briand who, as usual, appeared vaguely optimistic, saying that, after all, the extent of the difference was not great and that an effort of conciliation on all sides should bridge the gap, etc. Afterwards he saw M. Léger, who was much less optimistic as to the prospects of a settlement. Since his arrival in London he had seen M. Massigli. From these interviews and from his own observations while in France he had gained the impression that little could be expected from France at the present time in the way of concession. He then asked me to give him a full account of the negotiations relating to the point at issue, and of our point of view. As it seemed to me that Senator Morrow, who has always had a considerable liking for France, had been somewhat impressed by what the French had been saying to him, I proceeded to give him as clear and forcible an expression of our point of view as I could.

Finally the Senator said that he felt rather diffident about making any suggestions of his own—we knew the situation so much better than he did. But, if he made a proposal, I would realise that he made it as a sincere supporter of the agreement and an admirer of the work that we had been trying to do. His suggestion was that Mr. Henderson should propose a postponement of the present discussions for about a month. Senator Morrow felt that at the present moment all political attention in France was concentrated on the presidential elections, which not only meant that political opinion was correspondingly excited but left the field rather too free for the admirals. There was, indeed, a general feeling of disquiet in France at the present time, and he felt that suggestions for a settlement which might be turned down flatly now might conceivably appeal more to the French in a few weeks' time. He thought that such a suggestion could best come from Great Britain, which had always occupied an intermediate position, and he wondered whether Mr. Henderson could not find some pretext for proposing a postponement of the negotiations by making some calming and conciliatory statement on the lines of the admirable statement with which he had dealt with the *Anschluss* question.

I promised to convey this suggestion to Mr. Henderson, who would, I knew, be most interested to have Senator Morrow's opinion. I pointed out some of the obvious objections to a postponement now (e.g. the difficulty of resuming once you had postponed *sine die*) but said that developments in the next few days might certainly prove this to be the best course.

Senator Morrow said that he had not called personally on Mr. Henderson because he was particularly anxious to avoid publicity or to incur the charge

of 'butting in' to the negotiations. He had never intended to see M. Briand for the same reason, but had called to see M. Léger and found that M. Briand was awaiting him. The visit had become known to the press with rather embarrassing consequences for himself.

Just before I left General Dawes came in and joined in the discussion. The General took the line rather violently that the last French proposal to us had been a reasonable one since it only left a difference between us of some four or five thousand tons, and what was that as compared with our total fleet strength of 1,200,000 tons? He could understand the Italian point about desiring to keep construction down, but he failed to understand our own apprehensions in regard to the latest French proposal.

I informed the Ambassador that it was difficult to define in tons the exact difference between the French and ourselves: but the new French proposals (for they were new) added at least 30,000 tons of construction to what we had been prepared to accept and, since there was to be freedom after July 1935, the 30,000 tons might become 60,000 tons, or any other amount France liked to lay down in those years. What would have been General Dawes's feelings if, during the recent Naval Conference, after we had settled the long dispute between the United States and ourselves over 7,000 tons of cruisers, we had turned round and asked for another 30,000 tons? This excited the General considerably, who shouted that we were making too much of a small difference and that we should settle this matter on statesmanlike lines, etc.

When I left Senator Morrow accompanied me outside for the purpose of assuring me that he did not share General Dawes's views on this point, and quite saw our difficulty in accepting the new French proposals. He added that he was expecting to leave to-morrow, unless we thought that there was any real use in his staying on here. I thanked the Senator for his offer to disarrange his plans should we think it really necessary, and promised to inform the Secretary of State of our whole interview.

R. L. CRAIGIE

No. 349

Memorandum communicated by the Italian Ambassador¹

[A 2876/21/45]

ROME, May 1, 1931

(Translation)

The Italian Government have the honour to refer to the British memorandum of the 25th April and the document enclosed therein, containing the reply of the British Government to the French memorandum of the 20th April.

In expressing their thanks for the courteous transmission of the foregoing, the Italian Government have now the honour to send herewith their own reply to the aforesaid French memorandum.

As the British Government will clearly perceive from a perusal of the latter

¹ This memorandum was communicated on May 4.

reply, the Italian Government, in order to do the utmost in their power to maintain the agreement reached on the 1st March, and with the object of continuing the labours pursued jointly with the British Government for the achievement of success, are willing to accept the invitation extended to them, and therefore to agree to incorporating in the 'declarations' now in course of being drafted the formula proposed in paragraph 14 of the British reply.

The Italian Government trust that this action may prove to be a valuable contribution to the disarmament question and also to the various problems connected therewith.

ENCLOSURE IN No. 349

*Memorandum communicated by the Italian Government to the French Government,
May 1, 1931*

(Translation)

The Italian Government have the honour to refer to the memorandum of the 20th April from the French Government on the subject of the difficulties which have arisen during the labours of the Drafting Committee engaged on the text of the Naval Agreement.

The Italian Government have always considered the text of the Bases of Agreement as a document which is final in substance, even though it be susceptible of being drafted in different terms. They fully share the anxieties of the French Government at the danger of finding the results of long and laborious negotiations brought to nought, and therefore trust that the agreement of the 1st March may be maintained. It is in this spirit, and animated as they are by the most friendly sentiments and the utmost goodwill, that they have examined the arguments and the proposals which have been courteously submitted to them.

In the first part of the memorandum of the 20th April the French Government set forth the reasons for which they are of opinion that the agreement only governs the construction of tonnage to be completed before the 31st December, 1936.

The Italian Government cannot refrain in this connexion from reaffirming that they have never thought, either during the negotiations or when signifying their assent to the Bases of Agreement, that the agreement was confined to construction to be completed by the end of 1936.

It was after having ascertained the impossibility, at least for the moment, of reconciling the opposing theses which had been discussed at the London Conference that by July 1930 the Italian and French Governments came to the conclusion that an agreement would only be possible in the practical sphere, and that it would therefore be necessary to seek a solution which, while leaving questions of principle entirely unprejudiced, should govern the construction which the two countries intended to carry out in the next six years, that is, during the period 1931-36.

In fact the discussions which took place between the French and Italian experts in Paris during August 1930 had as their objective an agreement

regarding their *programmes of construction* for the next six years, thus taking also into consideration the tonnage which, having been laid down prior to the 31st January, 1936, would only be completed after that date.

It is clear that if each of the two countries had wished to preserve liberty to lay down during the latter years of the agreement an undetermined amount of tonnage which would have come into use in the years immediately following, the scope of the agreement would have been so limited that the object which it was desired to attain would have appeared wholly inadequate.

Since August 1930 the Italian Government consequently were justified in considering as settled that the Naval Agreement with France was to govern *all construction* by the two countries up to 1936 inclusive.

This conception has never been contradicted in the course of the successive negotiations undertaken in a parallel manner between French and British experts and between Italian and British experts. It was, in fact, confirmed when the British Secretary of State for Foreign Affairs and the First Lord of the Admiralty, after having conferred with their French colleagues, came to Rome to place before the Italian Government the proposals which led to the acceptance of the Bases of Agreement.

The Italian Government fail to see how the text of the Bases of Agreement can give rise to uncertainties of interpretation. Indeed, they do not see how the Anglo-Franco-Italian Agreement which, according to the original intention of the three Governments concerned, was to be incorporated in the text of Part III of the Treaty of London, could have omitted to govern in a restrictive sense, in a way similar to that prescribed in article 19 of the Treaty of London, the laying down of vessels to be completed after the 31st December, 1936.

This was precisely the object of the provision inserted in paragraph C (a) (2) (General Provisions) of the Bases of Agreement, where it is stated that France and Italy accept, as far as they are concerned, the provisions of Part III of the Naval Treaty of London, which have a general application. It appears to the Italian Government to be incontestable that the concluding part of article 19 of the Treaty of London, which governs the laying down of tonnage to be completed after the termination of the treaty, must be considered as a provision having a general application, and, therefore, must be included among those which the signatories of the Bases of Agreement pledged themselves to accept.

The French Government's memorandum sets forth in paragraphs 7, 8, 9 and 10 the three different points of view, of the British, French and Italian experts respectively, which were revealed in the Drafting Committee.

The Italian Government cannot, however, share the opinion expressed in the memorandum according to which 'a question which it had been agreed to reserve is, in fact, disposed of, at least for a given period'.

The final provisions of the Bases of Agreement express two conceptions:—

- (1) That the Agreement does not fix any permanent ratio for any category of vessel;

- (2) That the Agreement does not create any precedent as regards the final solution of the question whether, and, if so, in what manner, the tonnage which is overage on the 31st December, 1936, can ultimately be replaced.

The object of these provisions is, therefore, to indicate that the question of the adjustment of the maximum levels and of the ratios between the French and Italian fleets shall remain unprejudiced and that questions of principle are to be postponed. Such postponement cannot logically be conceived except for the entire duration of the agreement, since, if this were not the case, that is, if it be admitted that before the expiration of the agreement additional tonnage could be constructed, the Bases of Agreement would be profoundly modified.

As has already been stated, the Italian Government accepted the agreement essentially, if not exclusively, on account of the importance which they attribute to it both from the political point of view for the beneficial effects which may be hoped to accrue in the realm of Franco-Italian relations, and as a contribution which Italy and France would have made to the cause of disarmament.

The approaching General Disarmament Conference could in fact have found in the Anglo-Franco-Italian Agreement an example of reduction of armaments which would not have failed to exert a favourable influence on the outcome of that conference.

The fresh proposals submitted by the French Government under which the right would be reserved to begin additional construction during the final years of the agreement would, however, destroy all that the Italian Government consider to be the most valuable results of the agreement. In fact, the average annual construction which the agreement contemplates as 27,000 tons would be increased, in contrast to the object which the agreement has in view of securing an effective reduction of naval armaments.

The Italian Government therefore trust that the French Government will note that, notwithstanding the utmost goodwill by which they are animated, the Italian Government find, to their regret, that they are unable to accept the proposal put forward.

In their memorandum of the 25th instant addressed to the French Government, and communicated to the Italian Government, the British Government have submitted to the Italian and French Governments a proposal of their own.

With the object of doing the utmost that lies in their power to maintain the agreement of the 1st March, the Italian Government have the honour to state that they are prepared to agree to the British suggestion, as specified in paragraph 14 of the aforesaid memorandum, and accordingly to agree that the last part of article 19 of the Treaty of London should be incorporated in the text of the agreement by means of the formula mentioned below, it being thus understood as regards the two navies, and in accordance with the precise words used in paragraph 10 of the French memorandum, that it would be eventually for the Conference of 1935 to consider whether authority

could be given for the laying down of a certain tonnage from 1936 onwards, and that, failing agreement at that conference, no construction for the replacement of *overage* tonnage existing on the 31st December, 1936, could be undertaken before the 1st January, 1937; that, accordingly, under this last hypothesis, no construction beyond the tonnage for the replacement of vessels which become *overage* in 1937, 1938 and 1939 can possibly be undertaken before the 1st January, 1937.

The text of the formula in question, as it appears in paragraph 14 of the above-mentioned memorandum, is as follows:—

‘Subject to any further agreement limiting naval armaments which may be reached at the General Disarmament Conference of 1932, or at the Naval Conference which will take place in 1935 in accordance with article 23 of the Treaty of London, the additional tonnage which France and Italy may lay down before the 31st December, 1936, shall be the replacement tonnage of vessels which will become *overage* in 1937, 1938 and 1939.’

No. 350

Mr. A. Henderson to Sir R. Lindsay (Washington)

Nos. 299 and 300 Telegraphic [A 2832/21/45]

FOREIGN OFFICE, *May 3, 1931*

Naval discussions. Copies of the memoranda which have been exchanged with the French Government went to you by bag on April 28. Pending their receipt the following points may be useful to you:

The difference of opinion between the Italians and ourselves on the one side and the French on the other relates to the date at which France may start the replacement of a certain proportion of *overage* tonnage which it had been agreed by all three parties should remain *overage* for the period of the agreement. France now maintains that the limitation that she has accepted in respect of new construction relates only to the tonnage to be completed by December 31, 1936, which means that she would be free to start the replacement of the retained *overage* in 1935 and 1936. We and the Italians maintain on the other hand that it was clearly agreed between all parties that the last sentence of Article 19 of the Treaty of London was to be incorporated in the new agreement as one of the ‘provisions which are of general application’ mentioned in paragraph C (a) (2) of the Bases of Agreement: the effect of this understanding was that the tonnage which France and Italy could lay down in 1935 and 1936 would be limited to tonnage in replacement of vessels *becoming* *overage* in 1937, 1938 and 1939. The correctness of the British and Italian point of view is borne out by the wording of the last sentence of the ‘Bases of Agreement’.

The proposal for a settlement made in the last French memorandum was in effect no advance at all on the French position explained above since it would still be possible for France to complete in the first four years of the

agreement the whole of the construction which, under our interpretation, should have been spread over six years, and thus be free to lay down any tonnage she pleased in 1935 and 1936 failing agreement at the 1935 Conference. The fact that in the last memorandum the French Government undertook not to start laying down any of this replacement tonnage before July 1935 would not affect France's capacity to lay down a whole year's programme between July and December 1935.

The tonnage of new construction accorded to France under the agreement is 165,304 tons, made up as follows:

Tonnage which may be completed by December 31, 1936	136,438 tons
Tonnage which may be laid down but not completed before December 31, 1936:—	
(a) Capital ships	23,333 „
(b) Tonnage in replacement of vessels becoming overage in 1937, 1938 and 1939	5,533 „

According to the Anglo-Italian view this is the total that France would have the right to lay down in six years, making 27,500 tons a year. Under the last French proposal France would be able to concentrate this tonnage into four years, making 41,000 tons a year.

In our reply to the French memorandum we have suggested a formula making it clear that it would be for the Conference of 1935 to consider whether France and Italy can be authorised to lay down further tonnage in the year 1936; failing agreement by the Conference on that point, however, the laying down of new construction by France and Italy would remain limited for six years to the 165,000 tons mentioned above.

The formal Italian reply to the French memorandum is expected shortly. Meanwhile, we have been informed semi-officially that the Italian Government agree to the compromise proposal put forward by His Majesty's Government.

As you will see, acceptance of the French proposal would have involved the construction by France during the first 4 years of the Treaty of 13,500 tons a year more than His Majesty's Government had agreed to under the Bases of Agreement, and in addition France would, failing an agreement, have been able to lay down what she pleased in the years 1935 and 1936, while His Majesty's Government remain bound under Part III of the Treaty. This is a proposal which His Majesty's Government could obviously not have been expected to accept, seeing that they had gone to the utmost limit of concession in the Bases of Agreement. The underlying difficulty is of course that France is evidently determined to effect a rapid and substantial increase in her naval armament at a time when all other Powers are endeavouring to make reductions. In their efforts to bring about a settlement which will not involve general increases in naval armaments on the scale demanded by France, His Majesty's Government feel sure that they will have the full sympathy and support of the United States Government.

Your Excellency should see Mr. Stimson as soon as possible and discuss the whole position with him on the above lines.

For your own information only.

General Dawes has been stating openly that he feels that His Majesty's Government should have accepted a proposal which would at all events have limited construction for 4 years and be that much to the good. Such language may well have the effect of encouraging the French to maintain their demands and will, I fear, make an ultimate settlement more difficult. There is no doubt in the minds of any of the representatives of His Majesty's Government who participated in the recent negotiations that the idea of a six years construction agreement (on parallel lines with the agreement of Part III of the Treaty) was accepted by all sides up to the time of the agreement of March 1. We understand that strong objection was subsequently taken by prominent members of the Naval Commission of the French Chamber to the amount of construction which France will be able to lay down under the Bases of Agreement and that this is the origin of all our difficulties.

See also my telegram No. 301.¹

¹ No. 351.

No. 351

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 301 Telegraphic [A 2833/21/45]

FOREIGN OFFICE, *May 3, 1931*

My telegram No. 299.¹

American Ambassador informed First Lord of the Admiralty late yesterday evening that he had had an enquiry from his Government as to whether any suggestion had been considered in London to the effect that Bases of Agreement might be reworded so as to provide for limitation of laying down of tonnage instead of providing for limitation of completed tonnage, the entire agreement to be made to end in July 1935.

Ambassador said it was necessary for him to send a reply the same evening.

First Lord explained that he could do no more than give a purely personal opinion in confidence, since any such official view must come through the Foreign Office and on this understanding explained his point of view at some length. General Dawes was persistent in asking, as he put it, 'as a business man', why a 4½ years' agreement as to limitation was not preferable to no agreement and enquired whether Mr. Alexander would put the heads of it on paper. First Lord did so as follows, after repeating that this was an expression of his personal opinion in confidence:—

'The suggestion communicated to me by His Excellency is not in effect a new one. It means an agreement for 4 or 4½ years for France and Italy, whilst Great Britain remains bound with her two co-signatories at London for six years. It means that France could lay down all her present replace-

¹ No. 350.

able tonnage of over 160,000 tons in four years, and would be free in 1935 and 1936 to lay down replacements of existing overage tonnage, whilst the Part III Treaty Powers could lay down only tonnage becoming overage *after* 1936 (vide Article 19). This, as pointed out in our reply to France would involve the invocation of Article 21 of the London Treaty. If there is no French-Italian agreement, that invocation would have to be considered now. If there were a 4½ years' agreement it would still have to be faced, but Britain would be at the disadvantage of (a) entering the next Five Power Conference with the French construction a *fait accompli*, and therefore (b) in the event of them having to invoke Article 21, would have to face too large a building programme in too short a time. It would, if it is inevitable that Article 21 must be operated, be much preferable to spread the incidence of such operation rather than compress it into 1935 and 1936. Moreover it must be recognised that it is certain Italy would regard such a 4½ years' agreement as a breach of faith from the draft French proposals which we took to Rome from Paris.'

First Lord added to General Dawes that an actual agreement giving France such a large construction in the shorter period would greatly encourage all the smaller Powers to ask for more tonnage at Geneva, and that these had in certain instances already indicated that their demands would represent expansion.

No. 352

Mr. A. Henderson to Sir R. Lindsay (Washington)

No. 302 Telegraphic [A 2833/21/45]

FOREIGN OFFICE, *May 3, 1931*

My immediately preceding telegram.¹

The idea of a limitation of construction programmes pure and simple was tried during the negotiations at Geneva last November and, as Mr. Gibson will remember, had to be discarded for the following reasons:—

(1) The Italians held that in any such plan they would have to demand an annual construction programme which would be *at least* as high as the French programme, for fear of compromising the principle of parity. This the French would not concede.

(2) The annual programme demanded by France was too high to make it worth while for Italy to enter into an agreement on such a basis.

To revert to this idea now would mean abandoning that part of the Bases of Agreement on which all sides are agreed (namely the tonnage which may be *completed* by December 31, 1936) without getting us any nearer to a settlement of the difficulty concerning the amount of tonnage which may be *laid down* during that period.

¹ No. 351.

Lord Tyrrell (Paris) to Mr. A. Henderson (Received May 4)

No. 97 Telegraphic [A 2827/21/45]

PARIS, May 3, 1931

I saw M. Briand yesterday evening and told him what a painful impression had been created by the hitch in the naval negotiations and how much you thought their failure would affect the prospects of the Disarmament Conference.

2. M. Briand at once intervened by saying that he would not allow a rupture to take place on the question of the interpretation of the naval agreement. He was vehement on this point and added that there must be no interruption in the present negotiations by any of the parties taking up an uncompromising position from which there was no retreat. If the experts failed to agree the Ministers should take it up at Geneva.

3. Before taking leave of him I repeated that he could not exaggerate the repercussion of failure upon the Disarmament Conference.

4. M. Briand's assurances lead me to hope that he will resist proposals attributed to some of his colleagues in the Government to agree to the termination of negotiations and the issue of a statement of the present minimum naval requirements of France in the event of failure of agreement.

5. This afternoon the President of the Council delivered the speech outlining the policy of his Government which is always made by the head of a French Government prior to the reassembly of parliament. In the portion devoted to foreign affairs (see my telegram No. 96¹ of today) M. Laval made no mention of the naval negotiations, which is satisfactory as any reference thereto would have provided material for a continuation of the press polemic on this subject.

¹ Not printed.

Mr. Campbell (Washington) to Mr. A. Henderson (Received May 8)

No. 256 Telegraphic [A 2972/21/45]

WASHINGTON, May 7, 1931

Your telegram No. 299 and subsequent telegrams.¹

When I told Secretary of State yesterday that I was instructed to discuss the whole matter with him as soon as possible he said he too was anxious to discuss question: his engagements for today and the rest of the week however made it difficult to do so adequately during that time. Moreover, Mr. Morrow, who at his request had undertaken to go into the position in Europe and with whom he had just been speaking on the telephone, would be here early next week.

Although he had been carefully studying relevant documents there would

¹ Nos. 350-2.

be advantage in awaiting Mr. Morrow's arrival. He would then be in a better position to give me his views. Meanwhile he would of course be glad to hear later this week anything I had to say. He thought there was no harm in a little delay. The negotiators might naturally be feeling some irritation with each other at present. It might too be a good thing to do nothing further till after imminent French elections. I was not to think, if United States Government had taken no active part recently, he or Administration were in any way lukewarm. On the contrary their concern for success of 1932 conference interested them deeply in any effort to remove difficulties such as the present one which might militate against success of that conference. They would wish to be helpful. I said I was instructed to express confidence of His Majesty's Government that they had United States Government's sympathy and support in their efforts to secure a settlement which would not involve a general increase in armaments on scale demanded by France whose present attitude seemed to show determination to increase her fleet rapidly and substantially at a time when others were trying to make reductions. Mr. Stimson did not take up my point. He said he knew we contended that France *had gone back on what she had accepted* under Bases of Agreement; but would it not be a pity if the fact that we felt that there had been a breach of Agreement were allowed to stand in the way of settlement we so much desired? He then proceeded to set forth what he thought was the French point of view explaining that it must not be taken that he was arguing in favour of it but that it seemed important to try and understand it.

He said it must be admitted that France had prepared . . .¹

At London Conference she had long stood out for some guarantee of her security which of course she had not got. She no doubt based her present demands on the feeling that she must provide against a case where Germany dissatisfied with results of 1932 conference would refuse to remain disarmed. I interposed that this was a reason for objecting to French proposals: they made eventuality feared by France more probable. Mr. Stimson continued that assuming that he was right as to French point of view he had been wondering whether it would not be well to accept a proposal by France which would at any rate put some limitation on her construction.

This would be in accordance with general present trend to make short term arrangements in confidence that interval covered by their duration would help to remove the differences left outstanding between the parties. I again tried to turn discussion to practical effect for us of France's interpretation of Bases of Agreement and of her latest proposal. It was this practical effect I said that was causing us concern. We had in fact suggested a compromise formula. But France's proposal of April 20 involved construction in first 4 years of 41,000 tons a year and in addition (a point which Mr. Stimson had not realised) France would be free, failing agreement in 1935 to lay down in 1935 and 1936 any tonnage she pleased; His Majesty's Government remaining bound by part III of London Treaty. We could clearly not accept this proposal.

¹ The text here is uncertain.

Secretary of State was then called away to fulfil another engagement but reiterated his interest in this question and he preferred not to express his considered views till he had seen Mr. Morrow though he would be glad in the meantime to hear anything further I had to say. I shall ask to see him again and in the meantime am sending him a memorandum based on your telegrams 299, 301 and 302 so that in the meantime he may study His Majesty's Government's views on position created by French proposals.

No. 355

Mr. Campbell (Washington) to Mr. A. Henderson (Received May 8)

Nos. 257 and 258 Telegraphic [A 2973/21/45]

WASHINGTON, May 7, 1931

My immediately preceding telegram.¹

At Mr. Stimson's suggestion I continued conversation with Mr. Beale and I went over points made in your telegram No. 299, which in the short time which Secretary of State was able to give me and which he used for provisional expression of his views, I had had no opportunity of doing. Mr. Beale said he understood our contention but he did not seem to be convinced either that French proposal of April 20 must necessarily be unacceptable to us or that formula suggested in our reply was more than a verbal variation of our interpretation of the Bases of Agreement. I said it seemed to give definite date for settlement of question at issue but he said he thought that last sentence of Bases of Agreement meant that question would be dealt with at 1935 conference. I argued that we had gone to the utmost limit of our concession. I did not see how we could be expected to agree to French concentrating in the four years whole new construction allocated to them under Bases of Agreement and then be free to build what they liked while we were bound for six years. I used all the arguments employed in your telegram under reference and your telegrams Nos. 301 and 302 but he seemed to think there must be some means of compromising over the 18 months which he said appeared to be what was now at issue between the French and us. I said that there was more than this at issue as after four years French would be free to build . . .² they liked while we would be bound for six years under part III of the London Treaty. He answered that we should be safeguarded by Article 21. I said surely one of the chief reasons for undertaking the attempt to compose Franco-Italian differences was to avoid recourse to that article. He agreed but did not seem to attach much importance to this point. He went on that difficulty seemed to have arisen from division of new construction into what might be completed and what might be laid down. I said I thought this method has been resorted to as a means of getting round the difficulty of Italy's claim to parity with France by permitting arrangement about France's retained over-age tonnage. Method of limiting construction programme purely and simply had been tried at Geneva in

¹ No. 354.

² The text here is uncertain.

November, as he knew, but abandoned for reasons given in your telegram No. 302. I understood that General Dawes had raised point with First Lord with a suggestion that an agreement on these lines should be limited to 4 or 4½ years and that latter had explained the objections from British point of view. He said yes, that State Department had just wondered whether use of this method had been considered: but that First Lord's explanation had answered their question. I said that I gathered that Secretary of State and he both thought there was something in French offer. He answered that it seemed to them that it would possibly be better than nothing, or that at any rate it gave an opportunity for compromise. He wondered if it was chiefly our Admiralty that found French proposal unacceptable. I replied that I thought the Foreign Office agreed entirely with the Admiralty that it could not be accepted.

I repeated that His Majesty's Government felt they could not be expected to agree to the proposal and that that being so I hoped while whole matter was still under consideration and discussion that nothing would be said on United States Government's side that would encourage French in maintaining their opinion. He said they had no intention of doing anything of the kind, nothing had been said to French as far as he knew beyond a general expression of hope that a settlement would be reached. He had only been giving me frankly and informally the questions that were in the Department's mind.

I gathered from remarks made by Mr. Beale in the course of conversation that he does not entirely follow His Majesty's Government in their view of effects of French proposal of April 20; but as it became clear that an argument on the subject would have entailed calculations of a technical nature I thought it best not to get involved.

No. 356

Mr. Campbell (Washington) to Mr. A. Henderson (Received May 10)

No. 263 Telegraphic [A 2998/21/45]

WASHINGTON, May 9, 1931

My telegrams Nos. 256, 257 and 258.¹

I saw Secretary of State again this morning and told him that *aide-mémoire* I had sent in showed that His Majesty's Government felt unable to accept the French proposal of April 20. I had gathered from his remarks on May 6 that he feared His Majesty's Government were perhaps too concerned to hold the French to Bases of Agreement because they felt the latter had accepted it and were now backing out. I said His Majesty's Government were looking to the future and it was the practical effects of French interpretation of Bases of Agreement with which they were concerned. His Majesty's Government felt satisfied it is true that the idea of a six year construction programme on parallel lines with Part III of London Treaty had been accepted by all sides up to the time of agreement on March 1

¹ Nos. 354-5.

and that the French had afterwards changed their minds. It was this which made His Majesty's Government fear the French had determined on a rapid and substantial increase of their fleet and it was for this reason that His Majesty's Government felt confident of United States Government's sympathy and support in their efforts for a settlement not involving expansion of armaments on the scale demanded by French in their proposal of April 20. It seemed from what the Secretary of State had said to me on May 6 and from enquiry that United States Ambassador in London had been instructed to make that United States Government were inclined to think His Majesty's Government would do well to accept 4½ years agreement *faute de mieux* but he would see from my memorandum that His Majesty's Government felt they could not accept this proposal and also why they felt so. I hoped therefore that nothing would be said on the side of United States which might encourage France to maintain her stand and thus make a settlement more difficult. Mr. Stimson said with great emphasis that nothing of the kind had or would be said to the French, the less so as he considered the French had been the ones who had been making the most difficulties. He only asked General Dawes to enquire whether the plan mentioned by the latter to First Lord of the Admiralty on May 2 had ever been considered. He merely wished to have this information for purposes of his discussion with Mr. Morrow.

Secretary of State said that it was true he did wonder whether it would not be wise to accept the two thirds of the desired whole which France offered rather than lose the whole for the sake of one third. Every little step was a gain and made more likely settlement of what was left outstanding. Atmosphere at present seemed bad for securing of His Majesty's Government's desiderata. French did seem bent on expanding their armaments but though he was not quite convinced that the French proposal did involve full extent of construction which His Majesty's Government considered it involved, acceptance of their proposal now might prevent the full expansion feared by His Majesty's Government. It might be well to accept even if in doing so His Majesty's Government invoked Article 21 of London Treaty to cover risk of further French construction after July 1, 1935, which they felt existed. I said we of course desired solution which would avoid this necessity. Mr. Stimson said that conditions in Europe must have improved by the end of two years and that therefore there would be a chance that France would decide that she need not undertake further naval increases. He said he thought one of the greatest grounds for hope was the manner in which you were working for success of 1932 conference. He attached very great importance to this and finding some means of satisfying the French was the best hope of ensuring success though he would not say it was by any means a certainty.

I said I thought His Majesty's Government would be glad to hear that nothing had been said and nothing would be said to encourage the French in their present demands. Mr. Castle said he hoped that you had not been misled by a French newspaper report that the President and Secretary of

State had stated that French proposal should be accepted. It was pure 'invention' of course. Mr. Stimson who had not seen the report expressed genuine horror, reiterated his assurance reported above, and begged that you would not think anything different and said that misunderstanding between His Majesty's Government and United States Government would be the greatest misfortune. You of course had his sympathy and support in your efforts. He could not interpose as it was for Europe to compose her own differences: he could only urge those who had the differences to solve them. This was the answer he had given to representatives of several smaller European powers who had recently asked him what United States Government were doing with a view to success of general disarmament conference.

Secretary of State was throughout most friendly and sympathetic. He was perturbed over the prospects for 1932 conference.

Mr. Morrow arrives here on May 12.

No. 357

Mr. A. Henderson to Mr. Campbell (Washington)

No. 316 Telegraphic [A 3056/21/45]

Following from Vansittart.¹

FOREIGN OFFICE, May 12, 1931

Naval question.

I feel that your conversations with Mr. Stimson have been most useful in clearing up possible misunderstandings and in informing us as to the American attitude.

One of the many points which militate here against any compromise is apprehension as to future American attitude if this country were to accept an agreement regulating new construction for say five years only and then find themselves obliged to invoke Article 21 in respect of the year 1936 in face of additional construction by France. It is felt that United States Government might urge that, as we had accepted position for five years, it would be unreasonable for us to upset Treaty in the sixth year.

I do not personally share this view because Mr. Stimson made it clear when he was in London that no American Government would assume the responsibility (with its political implications) of objecting to any increase we might consider essential. Moreover, in his conversation with you on May 9 Mr. Stimson said it might be well to meet the French even if in doing so His Majesty's Government invoked Article 21 of the London Treaty, etc.

I should be grateful for any personal view you may have formed from your recent conversations as to the probability of any United States Government turning round on us in 1935 in the circumstances mentioned above. If the Ambassador has returned you will no doubt also consult him.

This is merely a personal enquiry, and it would be misleading to give Americans slightest hope that any further concession by this country could be contemplated.

¹ Mr. Henderson had left London for Geneva.

*Mr. A. Henderson to Lord Tyrrell (Paris)**No. 1298 [A 3295/21/45]*

My Lord,

FOREIGN OFFICE, *June 1, 1931*

I have to inform Your Lordship that on the 22nd May M. Briand called upon me at the Hôtel Beau Rivage before leaving for Paris. He said that he wished to get back so as to be able to see M. Laval before the latter left Paris for two or three days' holiday, since otherwise there would be no opportunity of seeing the Prime Minister till the meeting of the Council of Ministers, which was due to take place on the 26th May.

2. I raised with M. Briand the question of the Franco-Italian naval conversations and reminded him that His Majesty's Government in the United Kingdom had not yet received an official reply to their note of the 25th April. M. Briand answered that he thought a reply had been sent, and that he would at once look into the matter.

3. The French Minister for Foreign Affairs then went on to tell me of his talks with Signor Grandi. He explained that it would not be possible for any action to be taken in regard to the naval question until after the 13th June, when the new President of the French Republic would be installed; this was fully appreciated by Signor Grandi, who had raised no objection to the delay. M. Briand declared that he did not anticipate any difficulty in reaching an agreement on the points outstanding, as so very little now divided the two parties. He had suggested to Signor Grandi that perhaps a good plan would be for their respective Governments to engage immediately in discussion of the political issues outstanding between France and Italy, for if a settlement could be reached it would undoubtedly smooth the way for the conclusion of the naval agreement.

4. I told M. Briand that this view was of some interest, as he would recollect that, when in Geneva in May 1930, I had suggested this course to him; nothing had, however, been done to carry out my suggestion. M. Briand observed that he well recollected my intervention, adding that nothing had come of it because at that time the Italians were unwilling to discuss outstanding political issues and had insisted in taking the naval question as first in order.

5. I replied that my only fear as regards the discussion of political questions was that a settlement of the naval question would be unduly delayed thereby, and this would have an unfortunate effect, inasmuch as public opinion in all countries would conclude that the attempt to reach an agreement on the subject had failed.

6. M. Briand did not think that there would be any undue delay, as the matters which he proposed to take up with the Italian Government were those on which agreement had, to all intents and purposes, been reached, so that a final settlement would not cause any unnecessary delay.

I am, &c.

ARTHUR HENDERSON

Memorandum by Mr. Craigie

[A 3815/21/45]

FOREIGN OFFICE, June 11, 1931

Mr. Marriner and Mr. Atherton called to see me this morning.

Mr. Marriner stated that Mr. Stimson would be sailing on the 23rd instant and was anxious before he started on his visits to Rome, Paris and Berlin to know Mr. Henderson's view on the latest phase of the naval negotiations. Mr. Stimson would also like to know if possible of any plans which Mr. Henderson may have formed for organising preparations for the General Disarmament Conference. For this purpose Mr. Marriner had been instructed to come to London and would afterwards proceed to Italy to meet Mr. Stimson when he landed there and report on his visit to London.

After consulting the Private Secretary, I informed Mr. Marriner that the Secretary of State would receive him at 2.45 to-day, but that I doubted whether he would be prepared at the present moment to discuss his plans for organising preparations for the General Disarmament Conference.

We then had a long conversation on the naval question, most of which was concerned with details. I found Mr. Marriner was not so well-informed as I had anticipated, and so 'coached' him to the best of my ability. The following points emerged from the conversation:

(1) The State Department had been wondering whether it would not be possible to keep a six years construction agreement, subject to France having authority to lay down in 1936 such part of her replacement of the 66,000 tons of underage cruisers as she might think necessary, and subject to Great Britain specifically reserving the right to increase her treaty figures in 1936 to an amount necessary for offsetting the increased French construction. Mr. Marriner, however, did not in any way wish to press this suggestion, particularly as there still seemed to be a chance of the negotiations proceeding between France and Italy on a hopeful basis. Mr. Stimson's only idea was to help us in any way he could. I suggested that Mr. Marriner might 'prod' the French if, after the formation of the new French Government, they showed a disposition to let the matter hang fire. Mr. Marriner agreed that he might certainly be able to do something on these lines.

(2) Mr. Marriner had found M. Massigli depressed and pessimistic. He thought that the reason for this depression was concerned rather with the internal political position in France than with any feeling of pessimism in regard to the chances of settling the naval problem. On the latter point M. Massigli had said that he thought an agreement should now be possible. But he added that there might be a new Minister of Marine in the next Cabinet and that this would undoubtedly entail further delay. Mr. Marriner added his personal view that it was by no means certain that M. Briand would continue in the next Cabinet, since there were indications that M. Laval would not be sorry to see a change at the Quai d'Orsay if this could be brought about without destroying his majority in the Chamber.

(3) Mr. Marriner made no secret of his view that the interpretation which the French sought to place upon the Bases of Agreement was an absurd one.

(4) He doubted whether it would be wise for him to see the First Lord of the Admiralty because, if this were to get into the press, it might be thought that he had come here with new proposals, and this in turn might encourage the French and arrest conciliatory tendencies in Paris.

(5) Mr. Stimson would be arriving in London on the 27th July. He would be here four or five days before leaving for Scotland, and would hope to see Mr. Henderson during that time.

R. L. CRAIGIE

No. 360

Memorandum by Mr. Craigie

[A 4698/21/45]

FOREIGN OFFICE, *July 30, 1931*

At Mr. Stimson's invitation I called at his hotel yesterday and had a long talk, mainly on the naval question.

Mr. Stimson began by saying that he had had a full report on the whole subject by Senator Morrow, but would like to have from me a statement on our side of the question. This I proceeded to give him.

Mr. Stimson was clearly disposed to put on the French the blame for the trouble which had occurred and I think I was able to remove from his mind any lingering doubts which he might have had with regard to specific points. He said that even Senator Morrow, whom he had always regarded as taking the French 'under his wing', had admitted that, after all, it was the French and not the British who were asking for more tonnage. As regards the future, Mr. Stimson said that the most hopeful feature was the fact that M. Laval was beginning to take an interest in this question. Mr. Stimson had been greatly impressed by M. Laval and had been assured by the latter that he intended to take up with the Italians at an early date not only the naval question but also the various outstanding political questions. As regards the naval question itself M. Laval had seemed to think that a settlement could be reached with Italy without any difficulty. I said that even if this were so—which I doubted—it did not by any means follow that a Franco-Italian agreement would be acceptable to us. Mr. Stimson said he fully appreciated this point.

Turning to the question of capital ships, Mr. Stimson stated, for my private and confidential information, that he thought the lowest displacement for future capital ships which he had the slightest chance of inducing his Navy Department to accept would be 27,500 tons, but that it was impossible for him at this stage to guarantee that he could even get his people as low as that. I said that, as he knew, the displacement we had favoured during the Naval Conference was 25,000 tons. Since then we had been faced with the possibility of the construction by France of a 23,000 ton capital ship with a speed of 30 knots. I could not say what influence this factor

would have on the displacement ultimately favoured by our Admiralty, but that, personally, I had never believed that there would, in the last resort, be any deadlock between the United States and ourselves on this question of displacement. However, it must be remembered that there was a strong section of opinion here which favoured a drastic reduction in the displacement of future capital ships.

With reference to the General Disarmament Conference, Mr. Stimson said that it would be the policy of his Government to give His Majesty's Government every support in their endeavours to make the Conference a success. There were, however, limitations on the amount of influence which the United States could exercise in this matter, seeing that, even if America were to abolish her army and navy to-morrow, this would not solve the problems which obliged European countries to maintain armaments against one another. I said, jokingly, that such a wholesale scrapping of American armaments would indeed be disastrous; but that the general knowledge amongst the other delegations that America was prepared to do her share in the general work of reduction would clearly have an excellent moral influence.

R. L. CRAIGIE

No. 361

Letter from Mr. Craigie to M. Massigli
[A 6615/21/45]

FOREIGN OFFICE, *November 11, 1931*

My dear Massigli,

When I was in Geneva last September¹ I mentioned to you the view of His Majesty's Government that the best prospect of reaching an Anglo-French-Italian agreement on the naval question lay in continuing to seek a solution within the framework of the Bases of Agreement. I referred to the unofficial conversations which had taken place last May, and said we felt that some compromise on the lines then discussed would be the best method of bridging the gap left by the divergent interpretations of the Bases of Agreement of the 1st March. You replied that, if we had any proposal to make in this sense, it would receive careful consideration. You urged, however, that an end should be made of bargaining and that any proposal made should represent the furthest point to which we and the Italians were prepared to go. I said that, so far as I was concerned, I entirely agreed with this suggestion, on the understanding, however, that, if we now made a supreme effort

¹ On August 21 the French Government addressed to the Italian Government a memorandum containing new proposals. This memorandum was communicated to His Majesty's Government on August 26. On September 18-26 Mr. Craigie held unofficial conversations at Geneva with M. Massigli, Signor Grandi, and Signor Rosso. The Italian Government replied to the French Government on September 26. These exchanges, which did not lead to any agreement, were highly technical in character. Detailed records of them are therefore not included in this Collection.

to reach agreement before the Disarmament Conference met, and if the French Government were still unable to accept our proposal, then that proposal should be regarded as *non avenue*. In that event we should have to fall back on our own interpretation of the Bases of Agreement as representing a fair and reasonable settlement of the naval problem.

Since that time unofficial exchanges of views have been proceeding between the British and Italian Governments, through Rosso and myself, and I am now able to put forward to you unofficially a proposal which goes very far indeed to meet the thesis expressed by the French experts during the meetings in London last spring. The proposal is explained in the accompanying memorandum (Enclosure 1), to which I would add the following explanations.

Its general effect is to enable France to concentrate into five years practically the whole of the naval construction which, under our interpretation of the Bases of Agreement, should have been spread over six years. The only tonnage which, under this proposal, would remain over to be laid down in 1936 would be 3,896 tons in replacement of French submarines becoming overage in 1939, and 3,401 tons in replacement of Italian destroyers becoming overage in 1938. Under the Treaty of London these replacements could not be commenced before 1936. The figures of 57,409 tons in the case of France and 51,080 tons in the case of Italy, mentioned in paragraph 2 of the memorandum, are explained in the accompanying table (Enclosure 2). I also enclose as of possible interest a statement (Enclosure 3)¹ containing a few observations on two points in the French memorandum of the 21st August last, a copy of which was communicated to His Majesty's Embassy at Paris.

I hope these documents will make clear to you the purpose and scope of our proposal, but I hold myself at your disposal to supply any further explanations which you may require.

This is a genuine effort to go rather more than half way to meet you, and, as arranged between us at Geneva, there is nothing left to bargain with. I can at the same time give you the assurance that, once the French Government have intimated their acceptance of this proposal, we shall be able also to secure the formal assent of the Italian Government.

Believe me, &c.

R. L. CRAIGIE

¹ Not printed.

ENCLOSURE I IN No. 361

Suggested Compromise for Bridging Gap left by Divergent Interpretations of the Bases of Agreement of March 1, 1931.

The Bases of Agreement of the 1st March, 1931, shall be interpreted in accordance with the provisions of paragraphs 2-4 below. Subject to this, the said Bases of Agreement shall remain unaltered.

2. Within the period between the 1st January, 1931, and the 31st Decem-

ber, 1935, France and Italy may lay down tonnage which may be completed before the 31st December, 1936, and also tonnage which may be completed after that date, provided that the total tonnage laid down in all the categories of ships mentioned in the Bases of Agreement does not exceed within that period of five years the average annual figure of 32,282 tons in the case of France and of 31,016 tons in the case of Italy. Of this total of 161,409 tons for France, not more than 57,409 tons shall consist of vessels in the light surface craft and submarine categories. Of the total of 155,080 tons for Italy, not more than 51,080 tons shall consist of vessels in the light surface craft and submarine categories.

3. After the 31st December, 1935, France and Italy will have full liberty to lay down tonnage in the categories of ships not limited by the Treaty of Washington, except to the extent to which limitation may result from the decisions of the Naval Conference which is to meet in 1935, or of any other earlier conference.

4. Independently of the provisions of paragraphs 2 and 3 above, France and Italy retain their right to carry out their 1930 naval programmes.

5. It is understood that nothing in the preceding paragraphs prejudices the right of the Members of the British Commonwealth of Nations to have recourse, if necessary, during 1936 to the increases mentioned in article 21 of the London Naval Treaty.

ENCLOSURE 2 in No. 361

TABLE.

Tonnage in Light Surface Craft and Submarine Categories which France and Italy would be able to lay down under the proposed Compromise.

	France. Tons.	Italy. Tons.
Light surface craft which may be completed before December 31, 1936	51,331	46,158
Submarines which may be completed before December 31, 1936.	4,441	2,791
Replacement of French submarines becoming overage in 1937 and 1938 and Italian destroyers becoming overage in 1937	1,637	2,131
TOTAL	57,409	51,080

Note.

French submarines becoming overage in 1937 and 1938—	Tons.	Italian destroyers becoming overage in 1937—	Tons.
1 of 798 tons	1,637	1 of 861 tons	2,131
1 of 839 tons		1 of 635 tons	
French submarines becoming overage in 1939—		1 of 635 tons	
4 of 974 tons	3,896	Italian destroyers becoming overage in 1938—	
TOTAL	5,533		Tons.
		4 of 635 tons	2,540
		1 of 861 tons	861
		TOTAL	5,532

Letter from M. Massigli to Mr. Craigie

[A 156/58/45]

Mon cher Craigie,

PARIS, le 6 janvier 1932

Je m'excuse de répondre si tardivement à votre lettre du 11 novembre. Elle m'est parvenue à un moment où la réunion extraordinaire du Conseil de la Société des Nations et les affaires de Mandchourie me prenaient la plus grande partie de mon temps et ce n'est que depuis la fin du Conseil que j'ai pu utilement discuter la question avec les experts navals.

Nous avons mené cette étude dans l'esprit où vous-même avez certainement élaboré votre proposition, écartant toute idée de marchandage et ne nous laissant pas hypnotiser par les détails. Je me rends bien compte de toutes les difficultés dont vous avez dû triompher pour établir le projet dont vous m'avez saisi et je reconnais volontiers que, si l'on examine uniquement les chiffres auxquels aboutissait la proposition française du 21 avril et ceux auxquels vous parvenez vous-même, le désaccord entre les points de vue n'apparaît peut-être pas très grand.

Malheureusement, nous ne pouvons pas faire abstraction d'un certain nombre de faits et de discussions qui se sont produits depuis le mois d'avril, faits et discussions qui ont amplement souligné l'importance de la question des remplacements.

Lorsque le Gouvernement français eut mis en avant sa proposition transactionnelle du 20 avril, le Gouvernement britannique, pour l'écarter, fit valoir dans son memorandum du 25 avril qu'un sérieux préjudice pourrait résulter pour la Grande-Bretagne du fait qu'à défaut d'un accord avec la France, celle-ci reprendrait dès le 1^{er} juillet 1935 sa complète liberté de construction.

C'est en partie pour parer cette difficulté que le Gouvernement français, le 21 août, prit l'initiative d'un système qui déterminait l'importance des constructions à entreprendre par la France et par l'Italie jusqu'à fin 1936 et qui, tout en maintenant la relativité des tonnages français et italien, devait empêcher leur accroissement à l'avenir; dans ce système en effet l'importance des tonnages à mettre sur cale était pratiquement limitée par l'importance du tonnage à remplacer. Cette proposition a été écartée aussi bien par votre Gouvernement que par le Gouvernement italien. Le fait souligne la difficulté du problème, mais il ne la supprime pas. D'ailleurs, on a vu reparaître la question à la troisième commission de l'Assemblée lorsque a été discutée la 'trêve des armements' et que les constructions de remplacement ont été expressément exclues de la trêve.

Votre proposition représente une nouvelle tentative pour passer sous silence le problème du remplacement de nos unités restant hors d'âge fin 1936. Mais ce n'est là, me semble-t-il, que l'apparence. En réalité, vous en êtes vous aussi préoccupé. C'est du moins ainsi que je crois devoir comprendre le paragraphe 5, par lequel les membres de la Communauté de Nations britannique se réservent d'invoquer, dès l'année 1936, la clause de

sauvegarde prévue à l'article 21 du Traité de Londres. Ou c'est là une clause de style, ou cette disposition diminue singulièrement la valeur de celles qui la précèdent. Vous rendez en effet à la France (comme à l'Italie) toute sa liberté dès le début de 1936 et c'est la concession que vous faites; mais vous nous avertissez dès maintenant que, si nous usons de cette liberté, l'Amirauté britannique ne pourra même pas attendre un an, c'est-à-dire l'expiration du Traité de Londres, pour reprendre la sienne, et que vous feriez jouer tout de suite la clause de sauvegarde.

Qu'est-ce que cela signifie sinon que, dans l'esprit de l'Amirauté britannique, le tonnage français en bâtiments légers modernes construits ou en construction conformément aux 'bases d'accord,' telles que vous proposez de les interpréter, atteindrait le 31 décembre 1935 le niveau qui lui paraît convenable par rapport au tonnage en bâtiments légers que le Traité de Londres permet à la Communauté de Nations britannique de posséder à la fin de 1936?

Où est alors la concession? Vous répondez que vous avez voulu prévoir le cas où la France aurait prétendu mettre en construction en 1936 84,000 tonnes de bâtiments légers; il va de soi qu'il ne peut s'agir de rien de pareil et qu'il n'est pas question de sortir des limites du raisonnable. En tout cas, il me paraîtrait essentiel d'élucider la portée de la réserve que constitue votre paragraphe 5. Sans doute, l'an dernier nous admettions que la question pût être réservée pour des pourparlers ultérieurs devant s'achever à une date déterminée. Mais vous reconnaissez qu'il est actuellement difficile de négocier comme si, depuis le 1^{er} mars, des divergences d'interprétation ne s'étaient pas produites ni certaines tendances manifestées. Pour la même raison, d'ailleurs, un autre point appelle des éclaircissements.

Vous savez que le Gouvernement français est disposé à accepter qu'à partir de 1931, la France et l'Italie ne puissent entreprendre que des constructions de remplacement. L'accord, tel que vous le proposez, maintient sans doute en chiffres de tonnage la marge de supériorité dont la flotte française dispose actuellement par rapport à la flotte italienne. Mais, du fait du vieillissement des bâtiments qui composent la première, cette supériorité diminue de valeur chaque année. Au contraire, à la fin de 1935, l'Italie aura presque entièrement épuisé ses droits à remplacement. J'entends bien que la proposition française du mois d'avril aboutissait au même résultat six mois plus tôt; mais la référence que vous faites expressément à la clause de sauvegarde du Traité de Londres oblige à sortir de l'imprécision dont on pouvait, à la rigueur, s'accommoder il y a huit mois. Je dois donc vous demander si, dans votre pensée, votre réserve place sur le même pied la France et l'Italie et si l'Angleterre admettrait qu'en 1936 l'Italie, dans la mesure où elle aurait épuisé son droit à des constructions de remplacement, pût cependant procéder à des mises sur cale que ne compenserait dans l'avenir aucun déclassement corrélatif.

En d'autres termes, concevez-vous que le niveau de la flotte italienne en tonnage global puisse être porté à un chiffre supérieur à son niveau actuel, alors que le niveau français demeurerait constant? Voilà la question, à nos

yeux, essentielle. Peut-elle être éclaircie? Je vous laisse le soin de l'apprécier. Mais, puisque là est le nœud de tout le débat, vous comprendrez que je ne m'étende pas en détail sur l'argumentation développée dans l'annexe 3 à votre lettre, concernant les bâtiments de ligne. Vous trouverez dans une note annexe les observations sur lesquelles je crois devoir attirer à cet égard votre attention.

Telles sont, très franchement exposées, mon cher Craigie, les principales réflexions qu'appelle de ma part votre lettre, et dont je crois devoir vous faire part, puisque vous m'invitez à vous demander éventuellement des explications complémentaires. Ai-je besoin de vous dire que je serai heureux d'apprendre que, dans la situation actuelle, vous voyez quelque moyen de répondre à mes objections?

Votre bien sincèrement dévoué,

RENÉ MASSIGLI

Annexe

En ce qui concerne la pièce No. 3 jointe à la lettre du 11 novembre, il est bon de rappeler qu'au sujet des 'navires de ligne' il avait été entendu dans les conversations qui ont préparé l'accord du 1^{er} mars que la limite de 175,000 tonneaux imposée par le Traité de Washington à la France serait portée à 181,000 tonneaux. Toutefois, pour faciliter l'agrément du Japon et des États-Unis, on avait, à la demande exprimée du côté britannique, admis du côté français que, pour la période s'étendant jusqu'au 31 décembre 1936, le niveau de 179,800 tonneaux fut seul l'objet de l'accord.

Or, en dépit de toutes les démarches faites auprès de lui, le Gouvernement japonais — quelles que soient les causes des difficultés auxquelles il se heurte — se trouve dans l'impossibilité de donner à la France la garantie qu'à l'achèvement des 70,000 tonneaux qu'elle est autorisée à achever avant la fin de 1936, elle n'aura pas à déclasser un deuxième bâtiment du type 'Jean Bart' pour ne pas dépasser la limite de 175,000 tonneaux fixée par le Traité de Washington.

Il en résulte que, sous peine de courir le risque d'avoir à sacrifier ce deuxième bâtiment, la France doit réduire en fait à 65,200 tonneaux le tonnage qu'elle pensait pouvoir construire en navires de ligne; cela modifie, dans leur essence même, les conditions qui, au 1^{er} mars, avaient été envisagées par l'accord.

D'autre part, contrairement aux espérances que la délégation française avait pu avoir au sujet d'une réduction substantielle du déplacement et du calibre de l'artillerie des futurs navires de ligne, il s'est avéré depuis le 1^{er} mars que certaines Puissances ne seraient pas disposées à accepter des limites inférieures à 27,000 tonneaux pour le déplacement et à 380 millimètres pour le calibre.

Si regrettable que soit cette situation, il est impossible de ne pas la prendre en sérieuse considération.

Note. In view of the inability of the French Government to accept the proposals in No. 361, no agreement was reached between France and Italy before the opening of the Disarmament Conference.

APPENDIX I

The London Conference, 1931

STENOGRAPHIC NOTES of the FIRST Meeting of the Conference, held in the Prime Minister's Room, House of Commons, on Monday, July 20, 1931, at 6.30 P.M.

Present:¹

United States of America.

The Hon. HENRY L. STIMSON, Secretary of State. The Hon. ANDREW W. MELLON, Secretary to the Treasury.

Belgium.

M. RENKIN, Prime Minister. M. HYMANS, Minister for Foreign Affairs. M. FRANCOU, Minister of State.

France.

M. PIERRE LAVAL, President of the Council. M. ARISTIDE BRIAND, Minister for Foreign Affairs. M. PIERRE E. FLANDIN, Minister of Finance. M. PIÉTRI, Minister of Budget. M. FRANÇOIS-PONCET, Under-Secretary of State to the Presidency of the Council of Ministers.

Germany.

Dr. BRÜNING, Chancellor of the Reich. Dr. CURTIUS, Minister for Foreign Affairs.

Italy.

The Hon. DINO GRANDI, Minister for Foreign Affairs. Senator the Hon. ANTONIO MOSCONI, Minister of Finance.

Japan.

His Excellency TSUNEO MATSUDAIRA, G.C.V.O., Japanese Ambassador in London.

Mr. H. SAITO. Mr. S. KURIYAMA.

United Kingdom.

The Right Hon. J. RAMSAY MACDONALD, M.P., Prime Minister (*in the Chair*).
The Right Hon. PHILIP SNOWDEN, M.P., Chancellor of the Exchequer.
The Right Hon. ARTHUR HENDERSON, M.P., Secretary of State for Foreign Affairs.

Sir ROBERT VANSITTART, G.C.M.G., K.C.B., M.V.O., Permanent Under-Secretary of State for Foreign Affairs. Sir F. W. LEITH-ROSS, K.C.M.G., C.B., Treasury.

¹ This list includes only the principal Delegates to the Conference. These principal Delegates were present at all the meetings of the Conference.

MR. MACDONALD: . . .¹ I should like to indicate the purpose which His Majesty's Government thinks this Conference should serve.

The present moment may be one of the turning points in the history of the world, for good or ill. If we cannot find a solution of the present crisis, no one can foretell the political and financial dangers which will ensue. If we can find such a solution, it will be a striking proof of the growing effectiveness of international co-operation.

During the past two years the economic life of the world has been thrown out of gear by an unprecedentedly severe fall in prices. For example, wheat has fallen over 50 per cent., cotton 60 per cent., rubber 90 per cent., and so on, with practically all the primary commodities.

The countries which are engaged in the production of these commodities have, in consequence, been forced to restrict drastically their purchases of industrial goods, and world trade has suffered from a persistent and calamitous decline.

This fall in prices has greatly accentuated the burden of all debts, and has involved budget and financial difficulties for all debtor countries. But its effects have been felt in the most acute form by what I may call the international, industrial and financial States, and the very special position of Germany, both as an exporting and a debtor State, has concentrated upon it to a supreme degree all the problems which the other States have had to face in a less critical manner.

The German Government has increased taxation and imposed sacrifices on their people, but they felt bound to declare last month that they could go no further and that they would have to use their right to declare a postponement of their liabilities under the Young Plan unless the situation improved. This alarmed the foreign lenders on whose support Germany has been largely dependent during the past six years, and withdrawals of short-term credits ensued on a very large scale.

By the 18th June the position appeared almost hopeless, when the whole face of the world was changed in half an hour by the dramatic announcement of President Hoover's offer. History will pronounce this decision as an act of rare courage and statesmanship. It is no small thing to ask the people of the United States, far removed as they are from Europe, and themselves at grips with a domestic slump of unprecedented severity, to suspend for a year all their claims in respect of inter-governmental debts. But, in my belief, it was also a stroke of sound business. Its effect at the outset was startling; not only did the value of securities rise with a bound, but even the price of commodities advanced.

War debts and reparations are not self-liquidating obligations, like loans made for productive purposes. They can only be paid by exporting goods to the creditor country, or, in so far as there are obstacles to the movement of goods, by the export of gold. Thus, the payment of reparations and war debts in time of economic depression presents peculiar difficulties, and the knowledge that these difficulties exist weakens the confidence of investors, and this in turn enhances the original difficulties, so that a vicious circle is created. The Gordian knot was for the moment successfully cut by the President's beneficent sword; but foreign credits in Germany continued to be withdrawn.

It has been stated by the German Minister of Finance that from £150 millions to £200 millions of foreign exchange have been lost by Germany recently, a colossal sum, representing as it does more than the equivalent of two years' reparation payments. The trickle of exchange purchases became a stream, the stream a river, and the river a torrent, until the inevitable breakdown occurred.

¹ Mr. MacDonald began by welcoming the members of the Conference.

Thus, we have now not merely to consider the measures necessary to carry into effect President Hoover's proposal, but we have to add to that the urgent emergency that has since developed in Germany. Otherwise, it will be difficult to stay the flood before it has overwhelmed the whole of Central Europe, with consequences, social and political, as well as purely financial, which no man can estimate.

If the foreign investor had retained his normal confidence in Germany, her position would have remained safe and we should not be meeting here to-day under these circumstances. As regards her Budget, her balance of trade, her economic and industrial organisation, great efforts and sacrifices had been made and the position showed no radical defects.

Our position, therefore, in a word, is to restore the confidence of the foreign investor in Germany. Clearly, the problem has both political and financial sides, but the mind of this Conference is to be concentrated on the latter.

The fact that we have all met here to-day is in itself a demonstration that on every side the desire for the maintenance of cordial relations exists.

May I venture at this point to express the spirit in which we are determined to face our work? We are here representing our various nations, and we are also here in a spirit of co-operative goodwill, resolved to end our deliberations with an agreement which will not only meet the requirements of the present crisis, but, I hope, begin anew a time of candid and mutual effort to pacify the disturbed mind of Europe. Let us admit, first of all to ourselves, and confess it in our conferences, that there are some things which one or other of us cannot do, because the public opinion to which we must be loyal will not allow us. We are not here to enforce, or to defeat, or to humiliate; we are here to understand, to consider our problems objectively, to remember how closely in essentials we depend upon each other, and, therefore, to accommodate and to agree to something which each of us can take to our various Parliaments, explain and get accepted as an agreement. I feel that each of us can do that, and that an agreement here, even if in every item we do not like it, will reinspire our people with confidence and courage to face the heavy responsibilities which are to be the lot of all Governments during the immediate months ahead of us. Let us begin our work as friends, as a real Round Table conference, energised by the will to succeed, and never fear for a moment but that we shall have the support of our people.

As regards the financial aspects of the crisis, the question of what can be done must largely be reserved for bankers and financiers. I can only speak in general terms. There seem to be two main alternatives. The one is to find a means of providing new loans or credits to Germany. That is a matter that I understand has been under consideration in Paris. I am told that there are difficulties which would have to be surmounted before any loan could be obtained in the market here. We must consider this. It may be the solution. It may not; but a solution mutually possible and effective for its purpose must be found. The other way would be to attack directly the question whether, by strengthening the internal position of Germany, we can give an assurance of its stability to the outside world so as not only to prevent the capital that is already in Germany from being withdrawn, but to enable it to be augmented.

There can be no question about the inherent strength of the German economy, provided it has the capital resources that it requires. It is for this purpose that President Hoover proposed a suspension, for a year, of all debts and reparations. This represents for Germany a very real and important relief. It may not prove to be sufficient; that is a point that we must examine later. But I think our first

step is to decide, with the greatest possible expedition, the means by which this shall be definitely carried into effect. I emphasise 'greatest possible expedition'. Time is against us. Every day adds to the risks of a collapse which will be outside human control.

I propose that we hear now a report of what has taken place at Paris, because at that point we must begin our work. The conferences which have taken place between our French and German colleagues ought to prove of infinite assistance to us, and we are all glad that they have been held. So in the name not only of the Government, but of the whole country, I welcome you all here as colleagues in a great undertaking and declare our Conference open.

M. LAVAL: I think the best way of putting *au courant* those Delegates who were not present at the Paris conversations is first of all to read the communiqué which was drawn up last night in common agreement between the French Ministers and the German Ministers. This statement runs as follows:—

'In a recent message the Chancellor of the German Reich had expressed a desire to establish personal relations with the French Government, with a view to discovering some method of co-operation for the improvement of the relations between the two countries.

'The French Prime Minister at once replied that he regarded with satisfaction the prospect of such an interview, the occurrence of which was rendered the more desirable by recent events, which had affected the economic and financial situation of Germany, and, indirectly, of all other States.

'In consequence, the representatives of the two Governments met at Paris on the 18th and the 19th July, 1931. They were agreed in recognising the importance of this meeting and in declaring that it should mark the beginning of cordial collaboration.

'The Chancellor of the German Reich explained the different aspects of the crisis from which his country was now suffering.

'The French representatives, recognising the gravity of this crisis, stated that, with the reservation of certain financial guarantees and measures of political alleviation, they would be ready to discuss further the terms of financial co-operation in the international sphere.

'The representatives of the two Governments were determined henceforward to emphasise their desire to create, as between themselves, the most favourable conditions possible for a real collaboration in the political and economic spheres. They were agreed on the necessity of uniting their endeavours to secure that credit and confidence should be restored in an atmosphere of calm and security.' This communiqué is self-explanatory.

We should have preferred something more detailed, as well as more definite possibilities of agreement, but we should not, on the other hand, underestimate the results obtained by that first meeting. The welcome accorded by the French people to the German Ministers has proved that we, the representatives of the French Government, were interpreting the popular feeling as regards that meeting, the first since the war. This meeting, which was a moving one, took place earlier than had been foreseen. Dr. Brüning had some time before expressed the desire to meet the French Ministers. As soon as I learned of this, I had Dr. Brüning informed, through his Embassy, that I would gladly accept such an interview. Since that time events have rapidly succeeded one another. Some days ago Mr. Henderson, being already in Paris, showed me the dangers of the financial,

economic and monetary crisis through which Germany was passing, and which, he said, was liable to end in disaster. He then invited me to participate at an early date in a Conference of Ministers in London. I replied that that would be impossible for the French Government without having a preliminary conversation with the German Ministers. Thus the visit of the German Ministers to Paris came to be decided on. The French Cabinet then examined the situation. We had to say whether France would intervene, on what conditions, and in return for what guarantees. Before Dr. Brüning's arrival in Paris I had had the pleasure of a long talk with Mr. Henderson on this subject, and the day following I had another conversation with Mr. Stimson.

As to the measures to be taken to assist Germany, only one suggestion has been made up to the present, and that by the French Government. President Hoover's proposal has made possible the settlement of the problem of the budgetary crisis for the current year, but has not remedied the monetary, financial and economic crises. Dr. Brüning said in Paris what doubtless he will repeat here, that Germany was in urgent need of short-term credits, or rediscount credits, to a total amount which he will indicate to you. These short-term credits, given for the benefit of the Reichsbank, will have, in their turn, to be repaid or consolidated by means of a long-term loan.

It was about that long-term loan that I exchanged views with Mr. Henderson and Mr. Stimson to begin with, and yesterday morning with all the members of this Conference who were present in Paris.

I need not remind you that France is in a special situation in regard to Germany. France was painfully surprised some time ago to hear that she would not get the unconditional payments due to her for this year, in other words, the total of her reparations. It required great courage for the French Government to associate themselves with Mr. Hoover's proposal. However, our attitude was proved to be justified by the verdict of Parliament, and after having lost the total of what was owed her for this year, France now learns that she is to be called upon to make new sacrifices to help Germany and the latter's neighbours, and to contribute to the stabilisation of the European economy. In spite of this, I have declared that my Government will participate in any international action, the object of which is to remedy the crisis from which Germany is now suffering and which threatens to spread. It is none the less necessary to take certain precautions, and I set them forth very frankly to Dr. Brüning. It is quite enough for you to read the communiqué to know what they are. Up to now it has not been possible to settle the terms of an agreement as to the financial guarantees and as to the political assurances which might allow France to take her share in the common responsibility and risk involved. But in this way I had the opportunity to examine with Dr. Brüning the whole of the difficulties which our two countries are experiencing. We recognised that, so long as there was no policy of loyal and connected collaboration between Germany and France, there was not much prospect of security in Europe. Without continuous collaboration, even if remedies were found for the present situation, difficulties would soon arise again. We are both of us, therefore, firmly resolved not to consider our meeting as an isolated event, to be forgotten immediately. It was obviously impossible to solve all our problems in the course of that meeting. For the future we shall always have to endeavour, in all fields, whether political or economic, to find opportunities for further discussions with a view to reaching actual results.

As for the object of this London Conference, namely, to discover a means of

finding the credits which Germany needs, we came to no final decision in Paris. But we have come here to work in that spirit of goodwill to which Mr. MacDonald referred in his opening speech. We made one suggestion in Paris, and we informed Dr. Brüning of all our reservations and set forth the nature of the guarantees which we required. It was then that the communiqué which has been read was published. In addition, we informed our colleagues yesterday morning of the results of the conversations of the previous day.

This explanation will be sufficient. The communiqué will show that the two Governments are ready to help in formulating a policy of collaboration, and it makes plain the position of the French Government with regard to the loan.

MR. MACDONALD: Would it not be convenient if Chancellor Brüning would follow so that he may give us a statement of the situation in Germany?

DR. BRÜNING: I agree. First, I have to thank you for the kind invitation and to assure you that we are willing to co-operate in this Round Table Conference. In all cordiality and friendliness we shall come to a solution which we think is necessary, not only for Germany, but for the whole of Europe. I also thank M. Laval very much for the opportunity we had in Paris of talking with him and the way in which he has referred to the communiqué issued there yesterday.

The Prime Minister has asked me to make a short statement about the situation in Germany. First of all, I should like to give you a few figures. By the measures taken last year the balance of the Budget for the Reich is assured, and in particular we were very much helped because the generous action of President Hoover allowed us to do what is necessary in order to maintain a sound financial policy in Germany, to pay back, as we already had to a certain extent, a part of the large amount of non-consolidated short-term debts in which the Reich were involved last year, especially in connection with the high cost of Unemployment Insurance. We gave back to the banks in the month of July 300 million marks. As regards the Budget, as you have been told, the situation would have been all right, with the help of President Hoover's plan, if a further situation had not developed, in that a run on the German banks and in the Reichsbank started, which withdrew foreign short term credits. That has gone so far that the gold covering of the Reichsbank in Germany and outside Germany has gone down to 1,300 million marks and there are now only 125 million marks of foreign exchange left for the covering of the bank notes. There is a circulation of bank notes of about £200 million, but in the figures I have given you concerning the note cover is included a 100 million dollar credit, a rediscount credit given by the foreign banks, so that altogether the covering of bank notes of the Reichsbank went down on the 15th July to 35·8 per cent. We had the unanimous decision of the General Council of the Reichsbank, following in terms of the Law, which was approved by the Powers at The Hague, to reduce this cover, but naturally we had at the same time to take legal steps to raise our discount to 10 per cent., and the Lombard rate to 15 per cent. What we did in order to get over the situation was, above all, to avoid especially a moratorium for foreign payments, because we were afraid that a moratorium for foreign payments would mean, perhaps to a large extent, the breakdown of the banking system, not only of Germany, but of large parts of Europe. You gentlemen know very well that to a great extent our banking difficulties arose from the difficulties in which Austria found herself with her Credit Anstalt at Vienna. Then later on we had some difficulty on account of some Dutch banks which were not able to do quite a normal business. All these shocks from foreign countries, even from some Baltic States, were naturally felt by Germany,

whose economy is connected with all these different countries, and more especially the German credit system. On account of the difficulties of the Darmstädter Bank we had to introduce some bank holidays, *i.e.*, to stop all payments for a few days, except at the Reichsbank and Reichspost, and then to start payments on a limited scale, a scale which will be raised by a new Decree from to-day. We had to risk these rather dangerous and difficult methods because we were quite well aware that, if Germany did not try to do all she could do by herself, any international help might come too late, not only for Germany, but for a large part of the surrounding countries. As you said, Mr. Prime Minister, the situation is this. Waiting for help which possibly may come with delay makes the problem more difficult and makes it more impossible to find the necessary credit to help the whole of the countries, including Germany.

Perhaps it is worth while to say a few words about the peculiar and special situation in which Germany is placed. Our banking system, our Reichsbank system, our central bank system, has been based upon a law in connection with the Young Plan which is a quasi-international law, but the covering by foreign exchange and gold is founded not upon Germany's economy or economic life, but upon the amount of foreign short-term credits given by foreign countries to Germany. It is a very artificial system of central banking, because we have not stabilised the balance of foreign payments, and, therefore, if there is any crisis in the world in some other country and foreign short-term credits are cancelled and taken away from Germany, at that very moment the difficulty for the German Reichsbank begins. It is not in our power, as it is in France and as it is in England; it is in the power of the creditors who have given us short-term credits. We have acted in accordance with the international laws and conditions agreed to at the last Conference at The Hague, but at the same time it is not possible for us to solve this situation, because our whole system is artificial, for the reason that the covering of the bank notes of the Reichsbank is indirectly based on short-term credits.

We saw this situation at once at the beginning of the world crisis, and we saw the danger of the whole situation after the adoption of the Young Plan. Therefore, we tried to make economies on a very large scale at once and tried to get rapid deflation in prices so that we might be able to reduce the effects of the coming situation by cutting down the amount of the circulation of money in Germany. We did that. We cut down salaries and wages to a very large extent. We cut down expenses by nearly $1\frac{1}{2}$ milliards of marks and raised new taxes of 1 milliard of marks in 15 months. This is a very large sum and it has been possible to do it only by different decrees, but the international crisis in the world forced us to do it, to a large extent, too quickly. The speed of the deflation policy followed in Germany has been forcibly too quick. By this quite natural and loyal policy of meeting our obligations we got into very great difficulties, as I had the chance of telling these gentlemen a few weeks ago at Chequers. The situation is, therefore, so complicated, because, if we take the balance of payments in Germany, it is quite clear that we have been able to pay reparations only by taking in foreign credits. It was quite all right as long as we did it with long-term credits, but in the last two years anybody with insight into the matter saw the danger of paying reparations to a large extent on short-term credits. We did not succeed in getting over the situation and putting our payments on a sound basis because the international crisis came too quickly, as the Chairman told you, and, therefore, by trying to fulfil our obligations until the last moment, we have got into a most dangerous state of affairs from the financial and economic points of view, dangerous also for the state of mind of the

German people and for the state of political opinion in Germany. The Government tried to do all that was possible. We know there are many difficulties, but the policy of the Government in trying to make further economies will go on, whatever may happen. But one thing is necessary, or two things, which are urgent, and the urgency of which I should like to impress upon you gentlemen; first, to stop the cancelling of the foreign short-term credits given to Germany and, secondly, to give a new and real covering to the circulation of bank notes in Germany, which we think is equally necessary in the interests of some other countries. As I have already told you, Sir, and the other members of this Conference in the course of the last two days, that might be given by a new short-term rediscount credit to the Reichsbank, or in any other form, and I think the amount ought to be large enough to enable us to repay the 100 million dollars credit and still to keep a balance of $1\frac{1}{2}$ milliards of Reichsmarks. That does not mean that this new credit will be in any way necessary—but we must have the psychological backing to get over the situation. The difficulty in the last fortnight has been that the rediscount credit given to the Reichsbank by the big central banks of Europe was only to the amount of 100 million dollars, and this made a very undesirable impression upon many foreign creditors. It has had the psychological effect of being an invitation to any foreign banker to cancel the credits given to Germany. As soon as the amount of this credit was known in the world, a new run started to cancel foreign credits to Germany because then everybody who had given short-term credits to Germany naturally thought, 'Of this small amount, I will be the first to have my share back'. This credit, of course, was a very good help to us for a few days, but, in effect, it rather endangered our situation.

I think, as far as it is possible to do it, I have given the situation as it is, and also put before you the urgency of finding a way out of these difficulties, which, I may say again, are not exclusively the difficulties of Germany, but to a large extent the difficulties of many countries in Europe.

MR. MACDONALD: We have now had the report of the conversations in Paris, and a statement from Dr. Brüning as to the situation in Germany which has to be remedied. Does any other Delegate now wish to speak? I understand that the situation is this. Dr. Brüning asks for some action which will do two things: (1) stop the liquidation of short-term loans; (2) supply in some way adequate cover for the note circulation. M. Laval has told us that the French Government has a proposal for a loan to effect that purpose, but that loan is conditioned by two main things, if I understand M. Laval aright, (a) international participation, and (b) an agreement on certain points with Germany. That seems to be a summary of the situation that has been placed before us up to now. Have I summarised it correctly, Dr. Brüning?

DR. BRÜNING: That is quite right.

MR. MACDONALD: Have I interpreted you correctly, M. Laval?

M. LAVAL: The Chairman has summed up quite correctly my recent statement. I should, nevertheless, like to point out that there is no question of a written proposal by the French Government. I merely indicated to Mr. Henderson, Mr. Stimson and Chancellor Brüning what seemed to us a possible solution. The possibility of the solution depends, however, on certain conditions and guarantees, to which reference was made in the communiqué.

I think, nevertheless, that the interview in Paris between the French and German Ministers made an excellent impression on the world, which has derived therefrom some measure of confidence, while credit operations have thereby been

facilitated. This will be all the more the case if the world is convinced that this is only a first step on the road to loyal collaboration. From this point of view Dr. Brüning's visit to Paris will undoubtedly prove to have been most useful, and I should like to take this opportunity of thanking him again for the frankness and fairness which he has shown throughout our conversations. Those discussions were friendly in character, and we have certainly done much to render easier the settlement of certain unsolved problems.

MR. MACDONALD: What we have to do now is to get to the very closest quarters with those demands—I use the word 'demands' not in the English sense so much as in the much softer French sense—and then consider what is the best way to meet them, by loan or otherwise. I am sure you would like just to think these things over and sleep over them, but how would you like them handled? I think that we ought to meet to-morrow morning as we are to-day, I mean in plenary session, and consider the matter all together with Prime Ministers, Foreign Secretaries and Finance Ministers, before referring matters to any sub-committees. Do we decide that that will be the best method? I think the first thing to-morrow would be to take up the discussion at this point, and now, having heard M. Laval and Chancellor Brüning, adjourn for the night.

The longest day is very short and we have much work to do. We cannot delay this problem, certainly not later than 10 o'clock to-morrow. Any proposal between 6 o'clock and 10 o'clock in the morning will be accepted. What hour would suit you?

*(It was agreed to adjourn the meeting until 10 A.M. on the following day at the Foreign Office.)*¹

STENOGRAPHIC NOTES of the SECOND Meeting of the Conference, held in the Cabinet Room, Foreign Office, S.W. 1, on Tuesday, July 21, 1931, at 10 A.M.

MR. MACDONALD: When we adjourned last night we had had two statements regarding the business we have met to discuss, and I think there was a general desire to proceed at once with the immediate problem in front of us, namely, to take steps without delay to stabilise German credit, at any rate temporarily, so as to prevent the deterioration of the financial position of that country. We might proceed this morning to consider that question still further. I think it would be advisable that no plan, no special plan, should be produced at this moment, but that the Conference should consider generally the first question of how far an immediate loan is required and what would be the implications of that loan. On the other hand, there is an idea that without an immediate loan stabilisation might be effected. When we have had a general discussion on the merits of those two points of view, those two methods of approach to the problem, we might then be in a position to consider definite plans. If that is the desire of the Conference, the business will proceed on those lines.

I would like to make one further observation. It is very desirable that at the end of our business to-day, if it is at all possible, some statement of reassuring character should be issued. It would have to be general in its terms like the communiqué issued from Paris on Sunday night, but it ought, if possible, if we can agree to it, to be of a reassuring nature telling everybody concerned that we here are

¹ Agreement was also reached on a communiqué to be issued to the press after the meeting.

determined to take steps to maintain the credit of Germany and prevent a complete European financial collapse.

M. LAVAL: France is ready to take a share in the drafting of the official statements with the reservations already mentioned.

MR. MACDONALD: We will raise that later on in the Conference when we see how far we have got with our discussions. Does any Delegate wish to speak?

MR. SNOWDEN: I gather, Mr. Chairman, you say we might begin by considering the suggestion made by the French Delegation yesterday in regard to the possibility of a loan to Germany. The French Prime Minister stated that they had had this matter under consideration, and he put forward what he described, not as a proposal, but as a suggestion, but he did not last night enter into any details as to the nature of the suggestion that they had put forward. It is well known to all the Ministers here that there has appeared in the French Press, and in the English Press too, rather full details of what the French had in their minds in regard to this loan, and I think before we can profitably discuss this matter, it is advisable we should have, if the French are prepared to do so, a somewhat fuller statement than was made yesterday in regard to the details of this proposal. I would suggest, if the French Prime Minister is agreeable, that he should give us some fuller details as to what the French had in their minds in making that suggestion of an international loan.

M. LAVAL: It is true that in Paris and in London we made a suggestion as to the ultimate possibility of a long-term loan to be issued for the benefit of the Reichsbank; but that is no more than a suggestion. There is to begin with a preliminary question which it appears to me might be more usefully discussed by the Conference—namely, the advisability of the loan. Various ideas have been put forward in the course of the various meetings we have had. Short-term credits have been mentioned, and it is only for the reimbursement of these short-term credits that we, for our part, made the suggestion of a loan. The conditions upon which those short-term credits might be obtained for the Reichsbank were not considered. There you have a preliminary discussion which appears to me indispensable, and I think that a good method of working would be first of all to open a general discussion in which the representatives of all countries would take part, and in the course of which ideas would emerge, which would then enable us to see whether the suggestion which we have made can be retained.

MR. MACDONALD: I am rather inclined to think that would be the better way.

MR. SNOWDEN: I do not think we can profitably discuss the general question of the loan, unless we have it put before us in a more definite form than it has been placed before this Conference. I should like, first of all, if those who have evidently been giving consideration to this question could be a little more explicit and tell us how they think this loan could be raised and the conditions that would be attached to such a loan.

MR. MACDONALD: I think the Conference has not quite made up its mind as to whether the best way of handling this situation immediately is a loan or not and it would be far better if we were to proceed from the loan requirements of Germany and see, by a process of discussion, how they can best be met immediately, it may be temporarily, but certainly immediately. Dr. Brüning told us yesterday in a sentence that what Germany required was something that would stop the flow out of Germany of these short-term credits; something that would stop the bleeding of Germany. Had we not better discuss whether the best way to do that would not be some sort of action and then what the action should be to

enable Germany to keep the short-term credits now falling due within Germany, so that they are not withdrawn; in other words, to prevent those short-term credits becoming fluid? Would any action on the part of the banks; would the Governments be prepared; would those of us here be prepared to take any effective action with the banks to enable those credits to be renewed, to lengthen their period? If so, how is that going to be done: would it be necessary if that were done as a temporary expedient to have a loan afterwards in order to convert short-term credits into real long-term credits: if that were done, under what conditions ought it to be done, and so on, and then, I think, we ought to keep in mind this: that some of those questions of immediate practical importance which will arise may have to be referred for careful and detailed discussion to experts, Ministers of Finance and so on, and get them to report to us here immediately what their conclusions are upon those points. I think that is the businesslike way of approaching our problem and getting it stage by stage to some sort of satisfactory solution.

If the Conference would agree to that, what I would propose to do is to ask Dr. Brüning to tell us what he thinks is immediately required to stop this drain from Germany. I do not mean a description of the situation. We have gone beyond descriptions. We know all that. We must now come down to what is required to be done immediately in order to change the situation. Dr. Brüning, I am afraid, must have spent many sleepless nights over this problem, and he might be able to tell us precisely what he thinks is required in order to stop that drain.

Am I interpreting the wish of the Conference?

(Agreed.)

DR. BRÜNING: I think the first and most essential thing to stop the withdrawal of credits is an arrangement by those markets which are highly organised to get an understanding that no further credits are taken away from Germany. That, of course, does not give a solution of the whole problem, because there are many markets where it will not be possible to stop the withdrawal of foreign credits from Germany, and here the question of how the confidence of the smaller banks in New York, London and elsewhere may be strengthened and how their withdrawals may be stopped, raises itself at once. I am afraid, after our experiences, that it will not be possible, if there is not in some way or other a guarantee or a new rediscount credit, to get those bankers and firms who do not belong to highly organised markets also to cease to take away their credits.

MR. MACDONALD: Has Dr. Brüning any idea as to where the credits are held?

DR. BRÜNING: So far as I know at the present moment the position is this, that about 400,000,000 dollars are coming from the big banks of the United States and about the same amount from the English banks, but beyond that there is a certain amount of short-term credits given by smaller banks, especially in the United States, to smaller municipalities. We are not able to state the amount of these credits, and it is not very likely to be possible to find out. There might again be perhaps about 200 to 250 million dollars given by banks, not, as I might say, who [*sic*] have predominant influence in the central market in New York, to municipalities and small firms and small banks in Germany.

I have been told that the amount of the French short-term credits still in Germany is only perhaps 5 per cent., or even less, of the whole of the short-term credits given to Germany. There is still an amount given by Swiss and Dutch banks, but, of course, that also has fallen to a very low figure.

MR. STIMSON: I should like to ask Dr. Brüning what power, if any, is possessed

by the Reichsbank, by taking measures against the payment of foreign exchange, for preventing the immediate flight of the unorganised marks which might take place as soon as this proposition is even discussed? Has the bank that power at present, could it exercise it at once, and would it do so? Otherwise, it is evident that the only effect of discussing this matter would be to penalise those organised banks which, ever since the 20th June, have been trying to hold matters stable, while other less conscientious or less organised banks have already been withdrawing them.

DR. BRÜNING: At present, there is a quasi-monopoly of trading in foreign exchange by the Reichsbank. A new decree was issued a few days ago. At the same time, by closing down the Stock Exchange, and by introducing these bank holidays, there is for the time being the possibility of stopping the outflow of the foreign short-term credits, but I am afraid that it might not be possible to go on along that line for a very long time without a moratorium for foreign payments, and that, of course, so far, was a thing which we should try, and which we have tried, to avoid by any means, because, as soon as Germany declares a foreign moratorium, fearful consequences will at once fall upon other neighbouring countries. Therefore, Mr. Stimson, if you ask me whether there is a sure way of stopping the outflow of the smaller credits, if not by—I use the expression—highly-organised markets, there will be left only the idea of a moratorium for foreign credits.

MR. STIMSON: I take it that, by a moratorium, you mean a prolonged interdiction? My question was whether the Reichsbank had the power, and whether it had the will, to effect a temporary stoppage pending the organisation of a plan for the voluntary cessation of withdrawals.

DR. BRÜNING: If I answer your question, it is by saying that the power and the will of the Reichsbank to stop that are there, and I think there might be at the same time an arrangement with, as I might say, big banks, big creditors of Germany; but, as regards the other credits given by smaller banks and by different firms, I think it is only possible by coming to an arrangement in, I do not know how many, perhaps hundreds of thousands, of different cases, in respect of which it would, of course, take a very long time to arrive at a settlement, and during this time it would be necessary to have a moratorium for all payments; there is no doubt about it, because otherwise we should lose the last of our foreign exchange which we have in the Reichsbank before we were able to come to an agreement. It is a question of time. Such a foreign moratorium could not last very long because, as soon as we started the moratorium, the shock of its consequences would be felt in foreign countries and our situation would again be more difficult.

MR. STIMSON: Then, if I may, I should like to ask one further question of Dr. Brüning, that is, assuming that such an effort at organisation was made, participated in and led by all of the great central banks of the world, to organise the member banks on the lines we have discussed, would not the very fact that such a movement was under way tend to restore credit in Germany, and could not that be counted upon to have its effect upon the member banks?

DR. BRÜNING: Well, of course, I think that it would restore the confidence in Germany to a very large extent, but, naturally, at the same time, some other measures must be taken and, I think, the first one is advice by the present Conference to lower the covering of the Reichsbank notes. If we change this Law about the Reichsbank which was agreed to at the The Hague Conference, then we can arrive at the amount of the circulation of money in Germany which is necessary to keep up German economic life. It does not mean inflation at all,

because, as I told you yesterday, we had had a restriction on the amount of circulation by our policy of deflation and in consequence of what happened a few months ago. We must arrive at a certain circulation of money to keep German economic life going. Some time ago we had inflation and the German people are very nervous lest that situation should occur again. Another step should also be taken, although I cannot decide on the form just now because I do not know how the central banks are prepared to consider the matter. In some form, at the same time, there should be restriction of credit by the central banks. Only these three things together would, I suppose, get us out of the difficulties for a fairly long time, and, if these measures are kept on for a few months, say, for two or three months, then I think many difficulties would automatically be solved.

MR. STIMSON: In this world of ours, Dr. Brüning, we cannot always take three steps at a time. It very often is of primary importance to know which is the first step to take. Of the three steps you have mentioned, if I do not misunderstand you, the great central banks would be concerned in at least two of them, and I should like to know your opinion on this; is it not probable that the first step and the most important step towards reaching a breathing period in which we can consider longer remedies for the future—is not the first step to organise a stoppage of the withdrawals of credit through the efforts of the central banks and such organisation as they can lead among the other banks of the countries of the world who are creditors of Germany?

DR. BRÜNING: Of course, I think, Mr. Stimson, this arrangement, especially of the central banks with the other banks in the foreign countries which are giving short-term credits to Germany, is the most essential and the first step, but I am afraid, in taking this step first and then having to take the other steps, we should not come to a solution because, in the meantime, there is the danger that German economic life without the other steps would break down.

MR. STIMSON: I was not quite certain of the nature of the second step that you proposed, and I should be very glad if you would make a little clearer to me the one which related to additional covering of the note issues.

DR. BRÜNING: There are two ways, one to keep on the present state of covering. That is only possible by new credit of the central banks or some other method. The other way is to put Germany on its own feet, and if that is done it is necessary to keep on a certain amount of covering of the notes and to get confidence in the purchasing power of these bank notes in lowering the covering. The covering is fixed by international consent at 40 per cent. If the covering is to be lowered, that is possible only by general agreement of the General Advisory Board of the Reichsbank, but, at the same time, it is necessary, if the covering of the notes is brought down, to raise the discount. For instance, if the covering of the notes is lowered, as was done last week, to 35.80 per cent., we have to raise the discount to 10 per cent., and the Lombard rate to 15 per cent. If you are going to lower the covering still further, we are forced by law to put the discount rates even higher up, and we might theoretically have a discount rate of 20 per cent. or more in this way, but, of course, if that is done in the rigid form of the law, it is quite possible that many German industrial firms will no longer be able to do any business. That is the difficulty and, therefore, I said there must be an advice because it will not be possible to change the Law at once without international agreement. We therefore require the advice of this Conference. There is one other thing. It is also necessary to change Article 31 of the Law of the Reichsbank because by this Article the Reichsbank is forced always, if anybody wishes to change German bank

notes into foreign money, to accept that business. If they go on with that it is quite impossible to continue the policy we are pursuing now.

MR. STIMSON: Does that modify your answer to my original question as to whether the Reichsbank had the power to stop temporarily withdrawals of foreign exchange?

DR. BRÜNING: We did it without changing the Law, but we can do it for a long time only if we get at least the moral backing of this Conference for changing the Law. With that the Reichsbank might do it for a long period.

MR. STIMSON: You mean that you have done it already in one crisis? Could you not do it in another crisis in the same way temporarily?

DR. BRÜNING: We have done it in the last few days, but it will be very difficult to go on in this way, as I said, without having at least the moral backing of this Conference to do it.

MR. STIMSON: What I mean, Dr. Brüning, is simply this: suppose this Conference should decide that it was worth while to try that first step, the step which you have just said was the most important, of endeavouring to organise a stoppage of withdrawals from Germany throughout the world, in order to do that it is necessary to give temporary protection to the conscientious banks throughout the world that are not withdrawing. My question is, can that be done and is the Reichsbank willing to do it? Have you said anything about that? I understood you to answer 'Yes' once. Do you still stand by that answer?

MR. MACDONALD: Dr. Brüning would like Dr. Schaeffer¹ to be allowed to answer that question.

DR. SCHAEFFER: I have understood the question asked by Mr. Stimson to mean: would the Reichsbank be in a position to maintain the German currency in the present form if it were assured that the big creditors would not withdraw their credits from Germany?

MR. STIMSON: I was afraid there was a misunderstanding between Dr. Brüning and myself, and the question put by Dr. Schaeffer shows that was so. My question really was this: in the beginning we were speaking of the possibility of organising, through the leadership of the central banks of the world, a voluntary restriction among the banks of all the different countries who were creditors of Germany, a restriction against any further withdrawals of their credits. We all agreed that that could only be done without injustice if, during the period of organisation, the Reichsbank put in an embargo, so to speak, against the withdrawals of credits by the smaller banks, the unorganised banks, who might otherwise rush to withdraw their credits. I understood Dr. Brüning some time ago to say that it was perfectly possible, the Reichsbank had the power, and it also had the will to put on such an embargo temporarily. I simply wanted to know whether I was correct in understanding that answer and whether that was the fact. I suggest that Dr. Schmidt² translates that into German, so that there will be no misunderstanding by the experts of the Reichsbank.

DR. SCHMIDT: Dr. Schaeffer has understood the point.

DR. SCHAEFFER: The Reichsbank can for a short period stop the payment of foreign currency to smaller banks while efforts are made at the same time to induce the larger creditors to maintain their credits in Germany, but, in order to do that, it is necessary to alter certain provisions of the Bank Law. Dr. Brüning referred to two provisions which would have to be altered. The first is Article 31 of the Bank Law, which involves an obligation on the Reichsbank to exchange any mark notes

¹ Secretary of State at the German Ministry of Finance.

² Interpreter.

presented to it into gold or foreign currency, and that obligation, of course, would have to be suspended for a certain period.

The second provision of the Bank Law to which Dr. Brüning referred is Article 29, which says that, if the note cover falls below a certain limit, then the rate of discount must be put up to a very considerable height, which would, as Dr. Brüning said, involve the breakdown of a large part of German economy and which would induce these people to throw their stocks on the world's market in order to sell them there at any price, and this provision, which provides for the putting up of discount in case of lower cover below a certain limit, would also have to be suspended.

I may add that these two provisions are first of all laid down in The Hague International Agreements, and that they constitute in the second place the moral guarantee of the German nation for the stability of their currency, and without a moral backing from this Conference for the alteration of those provisions, it would not be possible to come to these alterations.

MR. MACDONALD: I wonder if our French colleagues have been considering this aspect of the problem, and whether they have any views about it?

M. FLANDIN: To begin with, we ought to note that the amendment of Articles 29 and 31 of the Reichsbank Law—an amendment suggested by Dr. Brüning and Mr. Stimson—would constitute an infraction of the undertakings given at The Hague, and which result from a provision which I have before me. The first provision indicates that, under the terms of the Dawes Plan, the Reichsmark must preserve a monetary parity of $1\frac{1}{2}$,790 of 1 kilogram of fine gold, a provision which was inserted in the Reichsbank Law, on the one hand, and which was recalled, on the other hand, in the letter dated the 26th June, 1929, addressed by Dr. Schacht to Mr. Young in his capacity as President of the Experts' Committee, which forms Annex II to the Young Plan. Dr. Schacht wrote:—

'I understand that certain of the creditor groups have raised the question as to the interpretation to be given to the word "Reichsmarks", in which the obligations of Germany under the new Plan are expressed. In my opinion the question is a purely formal one, as the Reichsmark is *de facto* on a gold basis, and has proved itself since its creation as stable a currency as any other in the world.' Consequently, it emerges clearly from the potential amendments suggested that there would be a violation of the engagements entered into by the Powers in the Hague Agreements. This is why, at any rate so far as France is concerned, we make the most explicit reserves on this point, all the more because the exchange of views between Dr. Brüning and Mr. Stimson has made it appear that, so to speak, there is some question of organising the legal devalorisation of the German currency. I do not believe that that is what we have to examine here. We are not concerned to know, in effect, whether a measure will or will not be authorised, or facilitated, of which the final consequence will be the devalorisation of the German currency by permitting the reduction of the gold cover below the cover fixed by the Reichsbank Law.

On the other hand, if I return to the question originally raised by Mr. Stimson, I do not think we need go so far with the discussion. Mr. Stimson raised the following question: would it not be possible during the period of reorganisation of German credit to prevent the holders of the credits actually invested in Germany, holders who, let us say, would show bad faith, from endeavouring to withdraw their deposits or credits, while others were consolidating them? Measures can be taken to prevent these events happening. We think, so far as we are concerned,

that it is possible to take steps other than amending Articles 29 and 31 of the Reichsbank Law. To begin with, it is not at all impossible to avoid that [*sic*] the declaration of a general moratorium for foreign credits, no less than all the inconveniences which Dr. Brüning seems to fear in the event of steps being taken in a corresponding manner to refloat Germany's credit. It may be thought that this moratorium would have serious drawbacks if it were to be introduced now, without any other step being taken. But if, at the time when it is declared, it is known that steps will be taken, all the drawbacks will be avoided to which attention was drawn just now. This is a question which might be studied closely, supposing it appears for certain that we are obliged to end by declaring a moratorium, and that it is not sufficient to establish a control which will allow the leakages which are always possible in these circumstances to be confined to the minimum.

MR. STIMSON: Do I understand M. Flandin to mean by that that he sees another way of preventing the leakage which might take place in the event of this Conference deciding to try to organise a movement to stop withdrawals?

M. FLANDIN: There is always the moratorium.

MR. MACDONALD: I think the Finance Minister said it might be done without a moratorium?

M. FLANDIN: Yes, but on one condition, that is that we should have the assistance of the central banks. We are here as representatives of Governments and we are not in a position to declare that the representatives of the central banks will lend themselves to such decisions. We can to a certain extent express wishes which we shall transmit to the central banks, but I do not think that even our American colleagues have the power to enter into undertakings.

MR. STIMSON: My question was whether M. Flandin saw any way, by a recommendation of this Conference, of preventing a leak. I do not quite understand his answer.

M. FLANDIN: I think that leakage would be entirely stopped if a moratorium were declared, and it could be stopped as completely as possible if there were an agreement between the central banks.

MR. SNOWDEN: I do not quite agree with M. Flandin's interpretation of the powers of the Reichsbank in regard to an alteration of the Law. It is laid down in Annex V (A) of The Hague Agreement that the Reichsbank may make proposals for an alteration of the Law, and if the Bank for International Settlements raises no objection to the proposal of the Reichsbank, it can be carried into effect; but if the Bank for International Settlements does not approve of it, they may refer the matter to an arbitrator or a tribunal, and the decision of the tribunal will be binding, not only upon the Reichsbank but upon all the Governments who are signatory to The Hague Agreement. Therefore there appears to be no insuperable difficulty in the way of the Reichsbank making application, if it considers it desirable, for an alteration of the Articles that are in question, I think Nos. 29 and 31; and if this Conference came to the conclusion that it was desirable that such a change in the Law of the Reichsbank should be effected, and made a recommendation to the Bank for International Settlements, that, I assume, would carry very considerable weight with them, and that change could then be carried into effect.

Apart from that, there is a very much wider question, and I agree with M. Flandin as to the dangers of declaring what Mr. Stimson called an embargo and what has been called a moratorium as applied not to the central banks but to the smaller banks. I should think the first effect of that would be to increase the

difficulties of Germany in regard to the matter of credit, rather than to dissipate them or lessen them, and I do not see how you could very well apply a partial moratorium. I do not think it is necessary in order to get some of the central banks, at any rate, to do everything that is possible in the way of preventing this leakage of credits. New York and London, I think, are doing, and have been doing, everything that is possible to prevent the withdrawal of credits.

MR. STIMSON: Very successfully.

MR. SNOWDEN: Very successfully? Well, up to the present time, so far as their efforts are concerned, they have been in a large measure successful, but within the last few weeks their efforts have been nullified to a considerable extent by the action of some of the smaller central banks. Both Holland and Switzerland and Sweden have been drawing very freely on London, and no plan could be really effective which did not secure complete co-operation at least between all the principal central banks. That, of course, is not a matter that we can decide here. We can do nothing beyond express the view that it is very desirable that the most complete co-operation should exist between all the central banks.

MR. STIMSON: My question was postulated on that.

MR. SNOWDEN: Yes. I do see a good deal of difficulty in trying to bring pressure to bear on the smaller banks, especially the joint stock banks, who, in this country at any rate, are involved to a very, very considerable extent in German credits. That is the difficulty that I see at present. I do not think there would be any very great difficulty in securing the necessary co-operation amongst the central banks. London, of course, and New York also, but London particularly as the world's greatest monetary centre, is [*sic*] deeply involved in this, and the repercussions of any action upon London are very serious indeed. The central bank has been suffering very much in the last few weeks by the withdrawal of funds from London, and in coming to any decision we have to bear in mind that it is likely to have effect, not upon Germany alone, but upon other countries that are deeply involved in German credits. I am not entitled any more than other representatives of Governments here to speak for the central banks, but I can say this for our own central bank, that it has made almost superhuman efforts within the last few months to deal with the general financial situation in Europe, and I do not think that they could possibly do more than they are doing at the present time. As a matter of fact, the Bank of England have lent up to the very limit, and I doubt if they could do any more than they have been doing, but any recommendation that might come from this Conference would, I am sure, be received by the central banks with the respect to which it would be entitled, but after all it is really their business, and the decision and action must rest with them.

There is one observation I made which occurs to me might be open to some misunderstanding. When I was referring to withdrawals from certain countries, Holland, Sweden and Switzerland, I did not in the least imply any criticism of the action of the central banks. The withdrawals have mainly been by private banks and commercial firms.

MR. STIMSON: May I ask one question of the Chancellor? I understood him that he felt that the method of organising the stabilisation of the credits might be carried through without danger and without an embargo; is that it?

MR. SNOWDEN: I tried to point out the dangers of the embargo and said it might aggravate rather than mitigate the situation, because I should certainly think it would be regarded as a further indication of the extremely parlous condition of Germany, and would therefore still further react upon her credits. If it can be

done without this embargo or moratorium I think it would be a great deal better and avoid any possibility of danger.

MR. STIMSON: I think we should enjoy having your opinion upon the subject on which Dr. Brüning was speaking in answer to my question as to whether this was the first and important step, that is, to organise a stoppage of withdrawals.

MR. SNOWDEN: Most certainly, I think, that is the most important and preliminary step to any further decisions that may be taken. The thing that we have to bear in mind, and Dr. Brüning mentioned this in his first remarks this morning, we have to do something which will restore confidence in Germany. That is a matter we must bear constantly in mind, and any action we may suggest therefore should be calculated towards the restoration of confidence in Germany's credit and not calculated in any degree to impair it. I am a bit of a heretic, I am afraid, on the question of bank covering and, as Dr. Brüning pointed out, the accompaniment of a reduction in the covering of the issue is an enormous increase in the bank rate and the advances to commercial firms. It is a thing which I think should be avoided if possible. There can be no doubt at all of what Dr. Brüning has said as to the disastrous, calamitous effect upon German economic, commercial and industrial life of such a rate of interest that the industrialists have to bear at the present time and even from what one may call the selfish point of view it is a thing which other countries must look upon with dismay because they can only do that by slaughtering their goods in foreign markets and intensifying the world industrial depression that prevails at present. I cannot understand how any industrial community can pay a high rate of credit interest like that. I wonder if, in order to focus this talk, we could come to some recommendation to the central banks to co-operate in trying to bring about what Mr. Stimson has put before us to prevent the flow of credit from Germany, and at the same time if possible to encourage the granting of further credits. What do you think of that?

MR. STIMSON: Was that question addressed to me?

MR. SNOWDEN: You raised the point in the first place.

MR. STIMSON: I was only asking Dr. Brüning, but I am perfectly willing to give you my view. Speaking only for the country of which I have knowledge, the banks in New York to-day hold 420 million dollars of these short-term credits of Germany. Not only are they not decreasing those credits, but since the 20th June I am informed that some of them have increased them. Outside of these well-organised banks I have no exact figures of the remaining short credits held in the United States, but they do not exceed in all, throughout the United States and including the New York banks, 600 millions of dollars. They are under that mark. We feel very confident that provided similar efforts were made by the other central banks of the world and similar earnest efforts directed towards stopping the withdrawal of credits in Germany we could, within 24 hours, get the assurance of the banks holding the great majority of credits in the United States of earnest co-operation in this movement. But it is a matter which cannot be done in one country while another country is holding back. It cannot be done unless there is co-operation throughout the world in a common cause, and there is the danger, on which unfortunately so much of the talk this morning wandered off, as to what would happen on the mere announcement of such an effort while the organisation was going on, and it was for that reason I asked the question of Dr. Brüning as to what could be done at the home centre to discourage withdrawals by one set of banks at the expense of another. In America, as I am informed, not only can we do it provided this joint co-operation is given, but we feel that that is the first and the

most important step that is called for in this entire matter. We feel by taking such a step it would put the recuperation of Germany upon an economic basis. We have faith in Germany's economy; we have faith in the resources which Germany has, in the character of her population, the character of her natural resources and the intelligence and energy of her labour, and we feel that given an opportunity to recover from the lack of confidence and panic which has been controlling the situation in the world during the past few weeks where one set of creditors were competing against another in haste to withdraw their credits—given that kind of a pause, we would find the credit of Germany rising at once; we would find a restoration in the situation which would greatly influence the question of the ultimate reorganisation of Germany industry. In other words, we think that this method of stabilising existing foreign credits is putting the horse in front of the cart; but that to consider long term refinancing in the condition that exists to-day is putting the cart in front of the horse. The thing to seek is a breathing spell which will give us an opportunity rightly to appraise the situation and to give Germany's resources an opportunity to assert themselves under proper economic conditions.

I want to state that I say this with the fullest appreciation of what has been done towards the stabilisation of the situation by the recent conferences which have taken place between M. Laval and Dr. Brüning, and of the steps which have been taken by France and Germany themselves to introduce into the situation an element of conciliation and confidence. I think that these have greatly assisted the situation up to date and have helped to make possible the step which you have asked me about; namely, whether by voluntary organisation the creditors of Germany, led by the central banks of the entire world who are concerned with those credits, can still further check the lack of confidence and panic conditions under which Germany has been labouring for the past few days. That in a nutshell is the way I look at it.

M. FLANDIN: I should like to say that for our part we associate ourselves entirely with Mr. Stimson in his suggestion to make a recommendation to the central banks for concerted action in order to stop withdrawals of foreign credits in Germany. Dr. Brüning reminded us just now that the total of the credits coming from France is very small and does not exceed 5 per cent. of the total. I can now assure you that that amount has not been in any way decreased recently. We are fully agreed on the necessity for recommending the central banks to take action with a view to stopping as far as possible the withdrawal of foreign credits from Germany. Such action should take place, in my opinion, on the initiative of the Reichsbank, which is the party most interested in having an arrangement with other central banks for settling the methods of stopping credit withdrawals; but if, as Chancellor Brüning has just told us, the Reichsbank has been able to control all movements of foreign currencies, that will undoubtedly facilitate matters. I should like to mention that this insistence on the necessity for settling, for freezing, so to speak, the total of the credits in Germany, has always figured among the French suggestions as one of the first steps to take. We quite agree with Mr. Stimson that, if we do that, it will mean putting the horse before the cart. We only hope the horse will be strong enough to pull the cart out of the slough.

MR. MACDONALD: I wonder if M. Francqui could contribute anything to this question?

M. FRANQUI: I am listening religiously to everything that is being said here.

MR. MACDONALD: M. Francqui has had a great deal of experience in banking.

M. FRANQUI: What strikes me is the fact that at a meeting of the banks of issue

a fortnight ago in Basle the banks of issue said they could do nothing and referred the matter back to the Government. Here this morning for two hours we have been discussing, referring the matter back to the banks of issue. The ball seems to be tossed backwards and forwards, and that may go on for quite a long time.

SIGNOR GRANDI: I have not the great experience of M. Francqui, but, so far as my country is concerned, I have nothing else to say beyond repeating what I said at the preliminary meeting in Paris. My country realises that the situation is very delicate and that it is necessary to make a common effort in order to help the financial situation in Germany, because the German situation is now not only a national one but an international one. As far as our Government is concerned, we are ready to give advice to our banks in order to do their utmost to co-operate in any plan which may be put forward for the remedying of the present crisis. I think our Conference must have a good and practical issue. The spread of mistrust and misery is threatened everywhere and the whole world is looking to us to do everything in our power to deal with the crisis, which is not only a financial one, but a psychological, social and political crisis. I think at the present time, as at no other time, the misfortune of one is the misfortune of all, and the good of one is the good of all.

MR. SNOWDEN: I was going to say after Mr. Stimson spoke last that I entirely agreed with what he said. London is, I think, to a greater extent than New York involved in German credits, and certainly there can be no complaint made against London on account of the withdrawal of any credits from Germany. Her policy has been the very opposite to that; rather to give help than to withdraw it. I was encouraged by what Mr. Stimson said as to the likelihood of the effect of action by the central bank in New York upon smaller creditor banks in America, and if that could be done, if they were able to bring some influence to bear upon the private banks and other creditors of Germany, it would remove much of the fear I have in regard to the moratorium. In that case, of course, it would not be necessary. So far as two of the central banks are concerned at any rate, I am quite sure their action has been quite in accordance with what Mr. Stimson has said.

MR. STIMSON: I can only answer the Chancellor by saying that when I spoke I measured my words, and I spoke after consultation with our central bank. More than that, what I said and what they have said to me is borne out by the action of the member banks in America in recent times. There has been already organisation, and there will be, if the condition of co-operation is secured, still further efforts of leadership throughout the country to hold the situation stable. I say, further, that, quite contrary to some reports which I have noticed in the Press on this side of the water, the efforts that have been going on in the past have been successful, and the figures I have given show that there has been a holding steady of the ship in America.

MR. SNOWDEN: I quite agree with that.

MR. STIMSON: What I mean is that we would not be now holding steadily in New York 420 million of these short-term credits and between 500 and 600 millions in the entire United States if America had joined in this race in the way, unfortunately, some European papers have represented.

After his speech had been interpreted Mr. Stimson made the following correction:—

I said nothing about what was being done in other countries. I said what was being represented by the Press of Europe as having been done in America.

MR. MACDONALD: I think we are now getting to the time when we ought

to continue these discussions in a smaller committee. I would suggest that the United States, Germany, France and Great Britain should together discuss this afternoon, and then report to the fuller Conference the result of their deliberations. If you agree to that, perhaps you would allow us to bring as representative, at least one who is not a Delegate here, but whose advice would be most helpful to all of us. Do you agree to that?

MR. STIMSON: I was going to suggest that if Mr. Norman is invited it might be possible to have M. Moret, or some of the representatives of the other banks who are available. I am only sorry that our own is three thousand miles away, but I can communicate by telephone.

MR. MACDONALD: I was going to ask who it was, and whether it would be convenient for any of the others to bring men of similar experience. I am afraid that your own heads are not here.

MR. STIMSON: No, I regret to say.

M. LAVAL: I would like to point out that the governors of the central banks usually meet regularly at the Bank for International Settlements. They have already examined the problem created by the German situation, and, as M. Francqui very aptly pointed out just now, they have decided to refer the solution to the Governments now represented here. These Governments are here represented amongst others by the Finance Ministers, who are fully qualified and competent to deal with the technical and financial aspects of the problem with which we have to deal, and I do not think that technicians, however eminent they may be, would introduce any new element into the discussion. On the contrary, I think it would introduce a regrettable confusion between the proper functions of the Governments and those of the central banks. The latter are independent, and their independence cannot be affected by the London Conference. If we agree upon a recommendation to the central banks, that recommendation will have much more influence if it has been adopted by a Conference where only Governments were represented.

I have listened to Mr. Stimson with very great interest, and I think there is much that is worth retaining in his suggestion. I am not an expert myself, and I think that even the most eminent experts might be at a loss in this debate. What renders the German situation so serious is lack of confidence, and experts will not be able to restore confidence. It will be the Governments, by their attitude and their determination, who will be able to do so. In this connection, I attach great importance to the Franco-German talk in Paris, and if Mr. Stimson's proposal were to be adopted, that is, if we recommend the central banks to induce all the banks in the world which have short-term credits in Germany to leave them there, I do not know what the result would be, but I have every reason to hope that our advice would be followed.

As to France, if it is true, as Chancellor Brüning said, that our apparent share in those credits is only 5 per cent., it is probable that this percentage does not represent the real state of affairs, because there must have been some indirect lending. At any rate, whatever the amount of French credits is, the French Government will endeavour to get the creditors of Germany to do exactly what Mr. Stimson asks.

MR. MACDONALD: The point M. Laval has raised is whether we had not better just meet alone.

MR. STIMSON: That seems to be the view of M. Laval, and I certainly am agreeable.

M. LAVAL: In other words, the Finance Ministers.

MR. MACDONALD: Whatever would suit you. If we had two from each of those countries it would only be a Conference of eight.

M. LAVAL: Yes willingly.

MR. MACDONALD: I do not mind.

M. LAVAL: I would like representatives of all countries to be members of that committee of study, whose duty it will be to submit a plan to us if it can arrive at one. We have here representatives of Belgium, Italy and Japan, and really what we want now is an effort of imagination. I think that the representatives of those countries are just as competent as we are to make an effort of imagination.

MR. MACDONALD: Perfectly; in fact, some of them, I think, would probably be far more competent to do that; but what I had in my mind was a small committee rapidly exchanging views. The committee would come to no decisions. It would only present a proposal, if it could, to the whole of this Conference on the lines of the conversation to-day. If we had the whole of the Conference we might just as well go on as a complete conference.

M. LAVAL: In that case we might limit the membership of that committee to the Finance Ministers who are now present at this Conference.

MR. STIMSON: I only suggest for the purpose of continuity the Chairman of the Conference also sits.

M. LAVAL: And M. Francqui, whose qualifications were mentioned just now.

MR. MACDONALD: If that is agreeable to the Conference.

SIGNOR GRANDI: It is much better that every country should take part.

MR. MACDONALD: I had no idea of excluding anybody.

M. LAVAL: I should like to make the following reflection. We met several times in Paris, and we now meet in London for the second time. I have repeatedly asked if any suggestions could be made other than the French suggestion. So far I have had no reply. I hope the committee will bring forward some such suggestion. If not, I would like to refer to a fairly recent period in the history of France. I refer to the year 1926, when she had a very serious crisis. France, in that crisis, relied upon herself. I firmly believe that if Germany now feels that the confidence of the world is behind her, her credit will be restored; and if, as the German Chancellor has told us, and as he has proved by the steps which have already been taken in Germany, he intends to persevere in a policy which is rendered necessary by circumstances, he will obtain the same results as we did. I say that not to discourage him, quite the contrary; and I sincerely hope the committee, which is shortly going to meet, will make more precise proposals, which we shall subsequently be able to discuss.

MR. SNOWDEN: I would like to know what the terms of reference of this committee are, and what we are to consider. If we are simply to continue the discussion which has taken place this morning, I do not see the need for a separate committee being set up. Is our work trying to see whether we can get any recommendation as to more cordial co-operation among the various central banks in order to prevent the withdrawals of credit in Germany?

M. LAVAL: That is a definite condition.

MR. STIMSON: I should have supposed in answer to the Chancellor's very pertinent enquiry that, although there has been no precise reference made, the general inference from this morning's discussion was that the assembled Finance Ministers should discuss the possibility of stabilisation according to the discussion this morning. I do not mean that they should be limited to that, but that is

evidently the sense of the discussion this morning as being one of the first things to be discussed.

MR. MACDONALD: The purpose is to produce material for to-morrow's meeting for this full Conference, and that material shall if possible be a recommendation. Would it be possible for the committee to meet at 3 o'clock in my room at the House of Commons?

M. LAVAL: It is, of course, plainly understood that the committee which the Conference has just appointed will, as was definitely understood at Paris, confine its study to examining the purely financial problems within the scope of the recommendations.

MR. MACDONALD: Within the scope of the Conference. I am sure the American Delegates will also insist upon that.

It is agreed that the Finance Ministers should meet at 3:30 P.M. in my room at the House of Commons.

It is suggested that the following communiqué should be sent to the Press:—

The International Conference met at the Foreign Office at 10 A.M., and considered the methods of international financial co-operation, whereby confidence in Germany's economic stability may be restored in the immediate future, as a preliminary to an examination of further measures which may be necessary to effect a permanent restoration of Germany's financial situation on a firm basis.

It was arranged that the Finance Ministers of the countries represented at the Conference, with Dr. Brüning, and with Mr. Ramsay MacDonald in the Chair, should meet this afternoon to continue the examination of the questions raised.

(Conference adjourned until 10 o'clock, Wednesday, the 22nd July.)

STENOGRAPHIC NOTES of the THIRD Meeting of the Conference, held in the Cabinet Room, Foreign Office, S.W. 1, on Wednesday, July 22, 1931, at 10 A.M.

MR. MACDONALD: I have to report to the Conference the result of the discussion yesterday afternoon between the Ministers of Finance. The document which it was decided to circulate this morning is in your hands. I propose to read it. There is a translation into French circulated with the English text:—

In pursuance of the request made at the plenary meeting of the Conference on Tuesday, the 21st July, 1931, the Committee of Finance Ministers submit the following statement of matters discussed to the Conference for consideration:—

The recent excessive withdrawals of capital from Germany have created an acute financial crisis. These withdrawals have been caused by a lack of confidence, which is not justified by the economic situation of the country.

In order to ensure the maintenance of the financial stability of Germany, which is essential in the interests of the whole world, the Governments represented at the Conference are ready to co-operate, so far as lies within their power, to restore confidence.

The Governments represented at the Conference are ready to recommend to the financial institutions in the respective countries the following proposals for relieving the immediate situation:—

- (1) That the central bank credit of \$100 million, recently granted to the Reichsbank under the auspices of the Bank for International Settlements, should be renewed at maturity for a period of three months;

- [(2) That central banks should be prepared, at the request of the Reichsbank, and on conditions to be agreed with it, to rediscount internal German commercial bills from the Reichsbank's portfolio;]¹
- (3) That concerted measures should be taken by the financial institutions in the different countries with a view to maintaining the volume of the credits they have already extended to Germany.

The Conference consider that, if these measures are carried through, they will form a basis for more permanent action to follow.

I ought further to explain that the conclusion come to, I think with unanimity, was that the real problem was the problem of how to restore confidence in Germany's credit, and the Finance Ministers bent their attention to consider how that was to be done. They attributed the immediate problem to the fact that short credits held by Germany are still flowing from it, and that the objective to be aimed at was to stop that flow immediately. They therefore considered what was necessary to do that. In the document which is before you there are two sections. There is an introduction, which goes down to the declaration of the three points. All the Ministers join in making the declaration in that introduction and would hope that any public statement made from this Conference should proceed on the lines of that introduction.

When we come to the specific proposals made, numbered 1, 2 and 3, the position of the Finance Ministers was that, although they had formulated those points themselves, they were not in a position to bring them before this Conference in the form of a recommendation, but rather they thought that the three points should be placed before the Conference as being the three points that emerged from the discussions of yesterday in the order of their importance. Therefore the three points are open for consideration by this Conference and there is no section in the Conference that is bound by the declarations contained in the three points. All the national Delegations are free until such time as decisions are taken upon them by this Conference.

Would the Conference be disposed to pass the introduction, paragraphs 1, 2, 3 and 4 without further discussion and then come to a discussion of the items numbered 1, 2 and 3? Do you agree?

(Agreed.)

Then we come to the detailed points. Does any Delegate wish to make any observations, or shall we take them individually?

MR. SNOWDEN: I was wondering whether it might not be better if we had a general talk because all the three paragraphs hang together; whether it would not be better to have what we call a second reading debate on these resolutions before we discuss them separately.

MR. MACDONALD: Do you agree to that procedure?

(Agreed.)

MR. SNOWDEN: When these suggestions were discussed at our meeting yesterday, when they were not before us in any very definite form, I expressed the fear that they were not practicable and that there was the possibility that, if they were adopted, they might do more harm than good. A further consideration of the suggestions has confirmed that fear rather than modified it, and I am very

¹ At the meeting of the Ministers of Finance this proposal had been included in brackets (as above) in order to distinguish it from proposals 1 and 3 upon which the Ministers were more in agreement.

sorry to have to say that I am afraid that I cannot associate myself with these recommendations.

In the first place, if these resolutions were published as the findings of this Conference, they would certainly convey the impression to the public mind that the Conference had thrown up the sponge, that they themselves could suggest nothing that the Governments could do, and were putting their responsibility upon the central banks, over which Governments have really no effective control—I am speaking, at any rate, in regard to the relations between the British Government and the Bank of England. The relations between the British Treasury and the Bank of England are most cordial and we are in constant touch with each other, but it has always been the policy of the British Treasury not to attempt to enforce its own views upon the Bank of England; the decision has always rested, and will in future rest, with the Bank of England. I hold it as a fundamental principle that the central banks must be free from political interference or political control. There is, of course, a great deal of difference between imposing the will of the Government upon the Bank and consultations between them.

The question whether the central bank credit to the Reichsbank should be renewed at maturity must be decided by the central banks themselves in the light of their knowledge of their own situations, and I certainly cannot take the responsibility of urging the Bank of England under present conditions to lock up its resources for three months. The Bank of England has great responsibilities to the London market, which is an international market to a greater extent than any other money market in the world, and the obligations of the London money market are by no means confined to Central Europe. Therefore it would be, I think—it certainly might be—inconsistent with its duty to the London market for the Bank of England to lock up its resources.

In regard to the paragraph about the rediscounting of German internal commercial bills, I agree with the attitude that was taken up by M. Flandin at our meeting yesterday, and, so far as the Bank of England is concerned, it is impossible for them to take the additional liability of rediscounting the German internal bills. As a plain matter of fact they have not the resources with which to do it.

With the third proposal, about asking the financial institutions in the different countries to take concerted measures to maintain the volume of credits which they have already extended to Germany, I have a good deal of sympathy, if it can be applied both as regards direct and indirect credits to Germany; and if the central banks could see their way to try to carry out such a recommendation, I think it would be of very great value. The London market has already agreed to maintain its credit to Germany temporarily, but it has not been possible to arrange that so far in the continental markets and I think—at any rate I fear—that it would be quite impossible for the London market to go further than it has done in this respect and to maintain its credits unconditionally and indefinitely.

There are, I think, two reasons which support that view. In the first place, the credits that have been given by London to Germany represent a larger proportion of the resources of London than the credits that have been given by the United States, because although the amount may be larger from the United States their resources are very much larger than are ours. In the second place, London is so dependent upon foreign balances. London has invested very largely in German export bills which have been regarded as a first-class security, and they cannot renew the acceptance of such bills if the balances upon which we have depended are to be withdrawn. During the past week there has been a steady stream of with-

drawals from London; gold withdrawals amounted to £14 million up to yesterday, and, I believe, the figure is now about £17 million. If that drain continues it is quite obvious that it will be very difficult for us to renew our credits to Germany.

If we were to adopt the suggestions in this memorandum from the Committee which met yesterday afternoon, it would virtually amount to a long-term loan, because the idea is that we should give an undertaking to maintain the credits for Germany so long as they were necessary for the maintenance of the economic and financial stability of Germany. You cannot expect the money market, or the central banks, to maintain indefinitely credits, which, as I said, are in the nature of a long-term credit, without a Government guarantee. There is another point in this connection which seems to me to be of very great importance. If the investors in German short-term loans are to be asked to maintain the credit indefinitely, to do it—and this is the important point, I think—at the request of Governments, a Government guarantee would be involved, for if the money should be eventually lost the investors could turn round to the Government and say: 'You asked us to maintain our credits in Germany. It was upon your assurance that it was necessary to do that, and that it was a sound investment, that we maintained our credits. These credits have now been impaired or lost, and therefore the responsibility is the responsibility of the Government.' It is in effect a Government guarantee which, in the event of default or failure, the Governments would have to make good.

It seems to me that this is a matter for the bankers themselves, and that they ought not to be asked to take action at the dictates of Governments, especially when the Governments themselves appear to be—I hope the word will not be considered offensive—shirking their responsibilities in the matter and relieving their own shoulders of the burden of responsibility and placing it upon those of the banks. I am quite sure, however, from what I know of the past action of the Bank of England, that they will continue in the future, as they have done in the past, to render all possible aid without any urging from me. The banks have already declared that the present situation calls for political remedies which are beyond their sphere. This document says that 'the Governments represented at the Conference are ready to co-operate, so far as lies within their power, to restore confidence'. I really do not know what that means. I suppose, in a sort of sentimental way, they are ready to do what they can, but, so far as the discussions at this Conference have proceeded, I do not think they have given very much evidence of either a knowledge of what should be done or a willingness to do what it is necessary to do.

A guaranteed loan—and, as I pointed out, if we give a pledge to maintain credits indefinitely we are in effect giving a guaranteed loan—a guaranteed loan in an open and unabashed form is one which this Government could certainly not undertake, and I understand that that is the position also of the United States of America. I certainly could not go to the House of Commons and ask the Parliament to guarantee a very substantial long-term loan to Germany. I am quite sure that I could not get the House of Commons to agree to such a proposal.

The Governments represented here have, as I said, been concentrating upon some measure which will give immediate relief to Germany, without undertaking to deal with what are the fundamental causes of the trouble from which Germany is suffering at the present time. President Hoover, in his magnificent gesture, recognised what was the root cause of Germany's present financial plight, that it was due to political obligations of Germany, and that it was quite impossible for

Germany to maintain her internal economy and at the same time have to meet the huge drain of political reparations. That, I suppose, is the reason which induced President Hoover to suggest for the relief of Germany that her reparations payment should be suspended for one year. I should be very sorry indeed if this Conference, met to deal with the practical bankruptcy of German finance, exposed itself to the world as being bankrupt in statesmanship. We cannot shirk hard facts indefinitely. We may, like an ostrich, bury our heads in the sand so as to try to hide for a time, but the blast will continue to blow and we shall have to face it sooner or later. I do not think that these proposals, even if they were practicable, and I do not believe for one moment they are practicable, but even if they were practicable they do not touch the fundamental cause and they can do nothing at all to help the permanent rehabilitation of German economy and German finance, and therefore for these reasons, Mr. Chairman, I am afraid I cannot give my support to them.

MR. STIMSON: Mr. President, the Chancellor was good enough to bring in my name, or that of my Government, in connection with what he has just said in regard to the third of these propositions, and for that reason, and that reason alone, I feel that it is necessary for me to make a statement in order to avoid any misunderstanding here with the Chancellor or with this meeting. Most certainly, if I understood the Chancellor's remarks, they do not represent the position of my country, and the interpretation of this third article which I heard him give is not the interpretation which I had of it as represented by the discussion yesterday. I do not think that Mr. Snowden and I differ in our conception of the relations of our Governments to the central bank in our respective countries, but we were discussing yesterday—and this recommendation is an attempt, as I understand it, to embody the discussions of yesterday on that point—we were discussing yesterday the means of improving that lack of confidence which we all agreed underlay the difficulties which are afflicting the German Government, the German nation. We were discussing what steps could be taken to improve that confidence, and the discussion centred throughout the entire morning upon the means which have been, as I understood it, adopted in this recommendation. I have no means of understanding the recommendation except in the light of the discussion yesterday. Certainly, yesterday we had no idea of giving a Government guarantee to this matter. We were suggesting, as a body of statesmen assembled here, so to speak, a committee of informal discussion, we were discussing the trouble that is afflicting Germany and the means that might be taken, by whatever agencies of Government, to remedy the trouble, and the one about which our argument centred was the means of stabilising these credits to which this third resolution applies. The Chancellor asked me yesterday what my views were. I attempted then to make them clear. Our views were that it was possible for the creditor banks of a country under the influence and the guidance and the leadership, but not the compulsion, of the central banks, still less the compulsion of the Government, so to regulate public opinion on this matter that these credits could be stabilised, and I took the occasion to ask the Chancellor his view then upon the efficiency of this particular step to which resolution 3 relates, and I was so surprised at his remarks this morning that I sent for the minutes of that question and that answer and I find they are reported as follows. I said to the Chancellor:—

‘I think we should enjoy having your opinion upon the subject on which Dr. Brüning was speaking in answer to my question as to whether this was the first and important step—that is, to organise a stoppage of withdrawals.’

The very subject to which this resolution applies. The Chancellor's answer was:—

‘Most certainly. I think that is the most important and preliminary step to any further decision that may be taken.’

Now I supposed that we were here meeting to give advice, not to give direction; that we were here meeting to organise the opinion of the world in a hopeful manner upon this great crisis which confronts us and which is focussed upon Germany, not to organise measures of Government. Speaking for my own Government, we think that the American Government, in placing 266 million dollars out of its Treasury at the disposal of Germany—more than two and a half times that placed by any other Government—has placed at the disposal of Germany all that our Government, for the present at least, should be suggested to give for that purpose, and what we are talking about now is a banking proposition; what we are talking about is the best way of organising the public opinion of the world so as to make it a good banking proposition, to keep up those short credits in Germany, and if there should go out to the world such—I do not mean to use too strong language—but such jeremiads as have just issued from the lips of my good friend, I do not think it would help the psychology of the world which we are assisting to raise. Our view is just the contrary. We have not changed it. Our view is, as I said yesterday, that the condition of Germany is a temporary condition. The resources and the strength of Germany remain unimpaired and they are a good risk, barring the effects of the present crisis and the present panic of which all Governments to a certain extent are victims, and that the means of surmounting that crisis is a psychological question, a question of restoring confidence, and we are met here as a Committee to assist in restoring confidence, not to direct the instruments of Government that do it. Now I am not in any way concerned with the authorship, with the language, of this third proposition, or of any of them, but I was concerned with the discussion which took place yesterday, which I thought this resolution was drawn up to embody, and I do not intend meticulously to attack or defend the language. If it does not represent what we did yesterday, why, let us change it. I think this entire resolution could be made more hopeful than it is. I think, therefore, it could be made more calculated to carry out the purpose for which the Government of Great Britain called us here to consider the situation. I think it could be made more calculated to carry on the splendid work which was begun in Paris by the meetings of the French Government with Germany. I do not think it is a time to throw cold water on it. I do not think it is a time to take a scalpel and consider the matter as if we were trying to order our banks to do anything—certainly we are not in America—but we were gathered here to get the views of the world so far as they could be brought here by the Foreign Ministers and the Prime Ministers of the world, and to embody them in a resolution, and that is the way in which I look at this paper before us. I am ready to stand for any corrections of it in the matter of language. As I say, I had no share in its authorship. I was not one of the Chancellors or Finance Ministers who met yesterday and drew it up, but I think that is the way in which we should look at it, and that is the light in which it should be criticised. I only make those remarks because I do not wish any misunderstanding as to the position which my Government took on the matter.

MR. MACDONALD: I think here we have got to confine our thoughts within, it may be, the rather awkward limits that the immediate condition of Germany imposes upon us. If we were to discuss and try to settle what I daresay a great

many others here will agree to be the fundamental causes of the present trouble in Germany, the patient would be dead before we came to any conclusions, and if the patient does die, its body is going to affect the whole world with its disease. If we do nothing here, then the creditors will lose everything, and surely that, too, is a very serious responsibility imposed upon the Governments represented here. Therefore, I think, whether we like it or not, or whether we regard it or not as of very long value to Germany, we will have to do the temporary thing. At the meeting yesterday, it was recognised that the immediate stress of the situation in Germany can be met only by some policy controlled by banks, but it was decided—I think I am speaking for the Committee—it was decided to make certain recommendations in the belief, and this is recorded in the final paragraph of the memorandum which is in front of you, in the belief that, if these measures are carried through, they will form the basis and afford the financial and political conditions for more permanent action to follow. I think we must take into account the full survey that was made by the Committee yesterday, and the immediate and narrow proposals which it made—it did not make exactly proposals, but I use the word in a loose sense—which it put before the Conference, knowing perfectly well that they are severely limited to a temporary stoppage of what really is causing the trouble for the moment, that is, the withdrawal of short-term credits from Germany and the effect that is having already upon some of the big international, financial countries. In that very limited field we conducted our considerations yesterday, and with that very limited field alone in view this document was drafted and presented to you this morning.

Shall we proceed to point (1)? Point (1) you will see is simply a recommendation. I think what Mr. Stimson said generally about language might be borne in mind here. I think this might be differently worded so as to make it perfectly clear that neither we sitting here, nor ourselves separately when we go home to our countries can issue instructions. We should make that perfectly clear; I think we are all agreed about that; that we cannot issue instructions to the Bank for International Settlements even to do this, but we can simply report to them that, as the result of the information placed before us here by Dr. Brüning and of our deliberations upon that information, we think it would be a helpful thing if the Bank for International Settlements could see its way to do this.

Are there any observations?

M. LAVAL: Even in the form in which this paragraph is now drafted France accepts it. She also accepts any alteration in the text that it is thought necessary to make.

MR. STIMSON: We associate ourselves with France.

(Germany, Belgium, Italy and Japan agreed.)

MR. MACDONALD: Paragraph 2 raises far more difficult considerations. M. Francqui, I wonder if you would be good enough to explain it? This paragraph arose from some observations you made yesterday. I am afraid I am not quite competent to explain its meaning to the Conference, and I should be exceedingly obliged to you if you would be good enough to do it.

M. FRANQUI: Each time that a country has stabilised its currency, that country has applied to the other central banks and asked them whether they would be prepared to rediscount some of its commercial bills to help it, because, at the beginning, the exchange of that country might not be firmly assured. That assurance has always been given and the decision has always been published. The

result has been that confidence has immediately increased in those countries, and, in practice, there has never been any such rediscount. From the psychological point of view, therefore, such a step has proved most useful. It is quite true, of course, that the position of Germany is different and more serious. It is quite possible that this might be done for Germany too, and that part of the commercial bills held by the Reichsbank might be rediscounted by other banks. Chancellor Brüning said that the Reichsbank now had about 1,200 million marks of commercial bills, some of which are quite first-class bills. Perhaps it would be possible for the banks of issue or private banks to rediscount these bills of the Reichsbank. As a matter of fact at the present time almost all banks of issue which are fortunate enough to have reserves of gold in foreign currencies have foreign bills, or buy them in all markets, not only German bills, but others. Would there be any difficulty in their purchasing, with the necessary guarantees, some bills from the Reichsbank? I think when I launched this idea forth yesterday all the Finance Ministers present thought it was an interesting idea. Naturally, the form in which it is now expressed can be changed.

MR. MACDONALD: I think the Minister of Finance for France contributed something yesterday which he might repeat to-day.

M. FLANDIN: There is indeed something to be retained from M. Francqui's proposal, namely, that ultimately the rediscount of commercial paper appears to be one of the most efficacious means, if not the most efficacious, of helping German credit at the present time. But if we look at the actual wording of recommendation No. 2 it amounts to asking the central banks to increase the credit of 100 million dollars granted at the last meeting of the Bank for International Settlements. This credit was granted on the security of commercial bills—as M. Francqui suggests, first-class commercial bills. I do not think that in present circumstances the central banks will agree to increase this 100 million dollar credit, based on the rediscount of commercial bills, without involving their available funds up to a point where they will ask, in return, for the certainty of being able to get out of the operation at a given moment. This brings us back—and from this standpoint I agree with Mr. Snowden—to the guarantee for which the central banks would then ask the Governments: this brings us back also perhaps to the question of a long-term loan.

Perhaps, however, a useful suggestion might be retained if, instead of restricting ourselves to talking about the rediscount of Reichsbank bills, we were to bring the machinery into play which was explained to us by Chancellor Brüning yesterday, that of the Gold Discount Bank and of the industrial guarantee which was recently organised in Germany.

If we are to secure the psychological benefit of confidence, which has been so much talked of, this will be achieved much more by the ordinary resumption of credit operations between Germany and other foreign countries than by exceptional measures, which, even if they are public, run the risk, perhaps, of creating yet more panic. On the contrary, if credit relations are restored in a normal fashion through private banks—except, of course, that in the end the bills thus issued and discounted by the private banks return to the central banks, but in the form of bills backed by the signatures given in the actual countries of the central banks, which is normal, and not in the form of foreign bills, which after all is rather abnormal—you will more easily obtain the desired psychological effect. This is why I ask that the wording of the second recommendation should be amended and that the reference should be to the rediscount by financial institutions in the different countries, supported, if possible, by the central banks, and by the Reichs-

bank, of commercial bills backed by the Gold Discount Bank with the joint guarantee recently created by German industry. I propose to add this paragraph to the recommendation:—

‘The Conference is of the opinion that such a proposal might allow of the provision of a basis for the resumption of normal international credit operations to the extent to which confidence in Germany may be restored.’

Of course, that is no more than a suggestion and not a formal proposal.

M. FRANQUI: A discount bank could always rediscount paper with the Reichsbank if it thought fit to do so. Any discount bank could do that.

MR. MACDONALD: Would Dr. Brüning care to tell the Conference what was said yesterday on this subject?

DR. BRÜNING: With your approval, I would like Dr. Schmitz to deal with it, as he has the technical knowledge.

MR. MACDONALD: There is no objection to that?

(Agreed.)

DR. SCHMITZ: Yesterday I had the opportunity of discussing this suggestion with the Prime Minister and Mr. Mellon. My suggestion would be to adhere to the proposal of M. Francqui, but at the same time also to carry out the second project, and then to find out how far the central banks make use of the proposal of M. Francqui—it might be done to a limited extent—and besides this to find a solution for this credit with the Gold Discount Bank, with the guarantee organised recently with the Gold Discount Bank by German industry.

MR. MACDONALD: Has America any observations to make on this?

MR. STIMSON: I never heard this matter discussed, and I should prefer to hear a discussion by the other Delegations. I should like to hear the views of the British.

DR. BRÜNING: If I understand Mr. Stimson aright, he would like to hear an explanation of this system of guarantee given by German industry to the Gold Discount Bank for getting new credits?

MR. STIMSON: No. My statement related to the whole of proposition No. 2. I say that I never heard of this until the report of the Committee of Finance Ministers came to me last evening, and I do not feel, therefore, that I am in a position to offer much light on it.

MR. MACDONALD: Could Italy help in this if it were recommended?

SIGNOR BENEDEUCE: I think, Mr. Chairman, that the French proposal seems to be the most practical in the present circumstances because the relations between the German market and other markets are bound to be established on the basis of commercial bills guaranteed by the Gold Discount Bank given [*sic*] by the industrialists.

MR. MACDONALD: Japan?

MR. MATSUDAIRA: I think as to item (2) there is very little practical application to Japan, and it is somewhat doubtful whether the central bank in Japan, that is the Bank of Japan, is legally competent to follow this method. If competent, of course, the Japanese Government would be prepared to make the recommendation. In this sense, I shall agree to this item provided all other Powers represented here agree.

MR. MACDONALD: I think the result of this discussion is that this must be further considered.

M. LAVAL: I think so too.

MR. STIMSON: You have asked me my views. I have none personally. On the

same lines as I explained to the Chancellor, Mr. Snowden, in regard to our relations to the Federal Bank, when it came to me I made inquiry as to what their attitude would probably be, and they being an independent agency of the Government, as Mr. Snowden has so well suggested, seem to find very great difficulty, and in fairness to this assembly I think I should say in the light of that I should have difficulty in recommending what I know they would find difficult, but the situation which I was able to present to them was based upon this recommendation here, which contains no guarantee such as I understood M. Flandin to suggest might be given. That might change the situation, although I have no encouragement to say that it would. I should say further in harmony with what the Chairman has said that this is a matter which is not ripe for a recommendation so far as I can see at present. It might be referred back rather than delay the situation. I think it is very important that what action we take we take quickly. Rather than hold up this session it might possibly be referred without recommendation to the Bank for International Settlements for examination and such recommendation as they might make in regard to it. That is only an offhand suggestion, but my own position is simply this. I never heard of it until last night. I have not that financial knowledge myself, in spite of the fact that I have been industriously smoking Mr. Mellon's cigars while I have been here in an attempt to gain that financial inspiration; I have not that knowledge myself that I should like to take the responsibility of even recommending this when I know as it stands at present there would probably be objection on the part of our bank.

MR. SNOWDEN: I have no objection to this matter being referred back for further consideration, but the suggestion that M. Flandin has made this morning was considered at considerable length by the Committee, arising, I believe, out of a proposal that Mr. Mellon made. You will notice a rather ambiguous phrase in this paragraph 'on conditions to be agreed with it', that is, with the Reichsbank. Well, there is a somewhat interesting explanation of that rather indefinite phrase. When the Drafting Committee set to work to draft these resolutions there emerged a difference of opinion as to what had transpired in the Committee in regard to the resolution of the Gold Deposit Bank. They could not agree upon what the precise reference to that was, and so they escaped out of their difficulty by putting 'on conditions to be agreed'. Now I dealt with this question generally at some length when I spoke before, and I only want to add this to what I then said. If this proposal were carried out it means in effect an extension of the present £20 million credit to about £80 million, and it is therefore virtually a very considerable extension of the credits which Germany enjoys at the present time. Now there is nothing at all to prevent the central banks at present, if they think the security is good enough, to rediscount these commercial bills which are in the portfolio of the Reichsbank, provided that they have the resources to do it, but I have pointed out this morning rather more fully what I said yesterday, that I could not recommend the Bank of England to undertake further liabilities in regard to the extension of their credits to Germany, for the simple reason that they are not in a position to do it, and therefore the question of the guarantee, the security, does not arise in that case, because, whether the security be rather shaky or the security be, as we say, as good as the Bank of England, it does not matter if you have not the money to lend, and therefore I could not take the responsibility of recommending the Bank of England to do something which I know they are not in a position to do.

DR. BRÜNING: Mr. Chairman, may I make a proposal in regard to the situation? If you give us time, perhaps two hours, the German Delegation will submit a

written statement of the whole situation to the Conference, or to a committee, and then we might discuss these things. I think perhaps that is the better way, because I do not think the Bank for International Settlements is able to come to any decision, because we have some experience of this matter, and we have made several propositions in the last few weeks to get us out of our difficulties. I should hope the Conference here could come to a practical conclusion on the basis of the proposition which we are ready to make.

MR. MACDONALD: I think we had better postpone (2) and see how we will deal with it when we have finished the document.

M. LAVAL: I have just listened to the comments of Mr. Stimson and the Chancellor of the Exchequer. It appears to me difficult to retain M. Flandin's suggestion after the declarations which we have heard. We are seeking for means of help on the international plane. It is quite obvious that we cannot think of supporting a proposal which could not be rendered effectual in certain countries. The Chancellor of the Exchequer has very loyally told us that he personally could not recommend it to the Bank of England. I was very struck, too, by the explanation he gave of the proposal. If the banks accepted it, if the recommendation which would be made to them were adopted by them, it would, for example, result in the increase of the credit of 100 million dollars to 400 million dollars; this is a prospect which must obviously be very closely studied by the Delegates of the various Governments.

As to the draft, whether it is the one propounded by the Finance Ministers or even the amended proposal of M. Flandin after the exchange of views which has just taken place, we must approach the drafting with the greatest tact and reasonableness. Moreover, I fancy that in the hierarchy of the recommendations we are making we have adopted paragraph 1. It seems to me that we are very naturally coming to paragraph 3. In paragraph 1 we are recommending the renewal for three months of the credit of 100 million dollars. In paragraph 3 we are recommending the financial institutions of the various countries to take concerted measures to maintain the volume of credits which the various financial institutions have extended to Germany up to date. It is most appropriate to have reserved paragraph 2. Paragraph 3 will naturally wait for paragraph 2, if it is agreed to. Once more as to paragraph 2, even as regards M. Flandin's amended proposal, I must, after the explanations which have been exchanged, formulate reserves as to an eventual text, especially after having heard what Mr. Snowden has said.

MR. MACDONALD: Dr. Brüning has suggested that the German Delegation might put up a statement on this. I think we shall have to have an adjournment of this Conference as soon as possible this forenoon to enable one or two points to be considered by a drafting committee and also to prepare a document which can be published. I do not know if the Conference would agree to adjourn proposal No. 2 for the further statement the Germans may make and in order to enable it to be scrutinised in its amended form by the Finance Ministers. Shall we adjourn article 2 and allow the Finance Ministers to consider it a little further and report to us later on to-day?

MR. STIMSON: You do not propose to adjourn before dealing with No. 3?

MR. MACDONALD: No. Do you agree to that suggestion, that we adjourn consideration of article 2?

(Agreed.)

May I say that certain remarks made in the course of discussion on point No. 2 are germane to point No. 3, and that, if we are going to pass a resolution like this,

which means that the different countries will take upon themselves burdens and risks in order to effect a temporary solution of the German difficulty, is it not rather fair that we should join together in the risk? As the resolution is drafted here it means, I take it—I will read it—“That concerted measures should be taken by the financial institutions in the different countries with a view to maintaining the volume of the credits they have already extended to Germany”—that means that the *status quo* of the unequal burdens shall be frozen. I would appeal to the Governments who are here and who will help to carry this resolution to try to redistribute some of the burdens. At present America and ourselves carry the bulk of them, the great bulk of them, the very great bulk of them, and I think it would be a very friendly act and a very just act if other Governments could see their way to take a part of what undoubtedly is a risk, as the Chancellor of the Exchequer quite properly pointed out.

M. LAVAL: I heard Mr. MacDonald's question well enough. If that question was put to my country I am obliged, out of loyalty, to answer in the negative. Even if we wanted to do it, we should have no means of forcing the French credit institutions to assume a share of the burden of the United States of America or of Great Britain. When the banks in the United States of America or Great Britain, or Italy or France, or anywhere else granted credits to Germany, they did not agree to concert action beforehand. The proposal which is made to-day seems to me utterly unacceptable to us. I am ready to adhere to paragraph 3, which our Chairman will shortly read out to us, but the proposal which I have formulated in the name of my country will be limited to that.

MR. SNOWDEN: I think M. Laval's statement makes it impossible for the Conference to accept this recommendation in paragraph 3 even in the form in which it stands now, because it suggests that there should be concerted measures by the various financial institutions, and, if one country stands out and is not prepared to come in and bear a fair share of the burdens which will be involved in the carrying out of this recommendation, then it becomes inoperative from the very beginning.

M. LAVAL: There is no doubt, although I have no precise information on the subject, that France must have made important investments at fairly low rates of interest in countries which later, in their turn, lent this same French money to Germany at a higher rate. That, of course, was a perfectly legitimate operation. Those countries took a risk. If France had wanted to take that risk, she would have done so by lending directly to Germany.

MR. STIMSON: There is this element in the situation, Mr. Prime Minister, if I may speak of it in all friendliness and also in all frankness. We are prepared to take the position which I said yesterday, to the extent of our obligation, which is to do everything possible by leadership of our bank[?]s to maintain the existing level in our country, even although that is, I think, the highest level of any country. We are holding up the resources of Germany in this particular fashion by some nearly 600 million dollars. Our banks are ready, as they have informed me, to make every effort to continue that, but, after all, the situation which confronts us to-day is not to be judged by the situation to which M. Laval referred as existing at the time when these credits were first established. We are confronted with a situation in Germany which, as recited in the first part of this paper, is a menace to the whole world. That, in a certain sense, makes the whole world brothers in treating this situation. Now, if any of the countries concerned in these measures have abundant resources, particularly if they have increased that abundance by timely withdrawals of those credits when they first scented the approach of danger, and before

there was any suggestion of concerted action by the different financial Powers of the world, it certainly is not an unprecedented thing to try to treat the situation as a whole. This is not the first time I have sat in conference on international matters with my friends from France. I remember that in the Naval Conference one of the most tenacious theses which was maintained by the representatives of France in regard to naval matters was that the problems confronting us in regard to the Navy should be treated as what they called a 'global' measure. All I understand the Prime Minister to be suggesting here is that in this other matter of world-wide significance, namely, the maintenance of these German credits, we should also, so far as possible—and nobody is asking France or any other country to do more than their banks, under the leadership of a new spirit of co-operation, can do in the proper exercise of business sagacity—all we are asking the nations to do here is to treat this as a 'global' matter. If I have made my position plain, there is no binding governmental force upon this except to make the recommendations. To put it concretely, as I have read this proposition, I think the Prime Minister's suggestion would be carried out by the elimination of two words in the fourth line of recommendation No. 3, the words 'they have', so that it would read, 'with a view to maintaining the volume of the credits already extended to Germany'. In other words, the main thing we are driving at in this suggestion is that Germany shall not have the general credit which the world has so far extended to her diminished. I may say we all sympathise with that general purpose. If our French friends were ready to have those two words eliminated, it would, I think, make the expression of our purpose clear, and it would not impose any governmental obligation further than the making of the recommendation, and the moral obligation to do all we can, each in our own way, to maintain that level.

M. LAVAL: In answer to Mr. Stimson, we ought only to make such recommendations as can be accepted. If we were to make recommendations which were not followed, they would not be serious on our part nor profitable to Germany, to whose assistance we wish to come. Now I declare that, as far as I am concerned, this recommendation which Mr. Stimson talks of would not be observed.

MR. MACDONALD: I wonder if that is M. Laval's last word? I am not only addressing myself here to M. Laval, but to others. We are all agreed that this action should be carried out. We are all agreed that, if Germany does not enjoy the continued use of what is at present short-term credit, our temporary measures cannot succeed. I think we are all in agreement on that. We say, in paragraph (3), that concerted measures should be taken. That indicates that we are all going to put our heads together to effect this purpose of retaining short-term credits in Germany. It may be perfectly true what M. Laval says about the wicked nature of bankers, that they take deposits at low rates of interest and lend them at high rates, and by those transactions maintain their banking operations. I do not know whether that is true or not, I am innocent of the matter; but supposing it is true, everyone here knows perfectly well that the retention of short-term credits in Germany at this moment is not for the purpose of getting high interest. If that were so, I dare say that French bankers would be looking after their interests in that respect just as well as British bankers. Those credits are retained for the purpose of maintaining German credit. If they have not been withdrawn months ago, it has been because those responsible for granting them saw that their withdrawal would inflict such damage upon Germany's credit that every European nation would be injured in consequence. Therefore they have been kept there, and are still being kept there, for the purpose of maintaining the financial fabric of Europe.

Under those circumstances—we are meeting here in order to co-operate in maintaining the situation in Germany—is it not fair that the burden should be shared a little better than it is, because, after all, the keeping of these short-term credits in Germany must be conditioned by banking requirements in the country that has given the short-term credits? It is not fair to either the United States—of course, they can speak for themselves—but it certainly is not fair to London that its industrial banking operations should be hampered by asking it to retain its short-term credits in Germany after liquidation is required in the general interests of the bank. We are willing to do everything we possibly can; we are willing to shoulder our obligations to maintain Germany's credit, but we think it only fair that the assistance given to Germany should be shared a little better than it is at the present moment.

I would appeal to M. Laval. I know his difficulties, I know the trouble that he would have; but I am quite sure, with goodwill and with the desire that he has shown all through to co-operate with us, he might be able to influence, to some extent at any rate, a readjustment of the burdens that are now being borne.

M. LAVAL: In the name of my country I can only promise here what I can perform. At the various meetings in Paris and London, and at the meetings of the Finance Ministers yesterday, we tried, in particular, to find means so that Germany need not repay at the moment the short-term credits which she has been granted. Those credits are of two kinds. There are, to begin with, the credits granted by the central banks. I refer to the 100 million dollar credit, and this was the object of paragraph 1 of the resolution which was adopted just now. In the second place, there are the short-term credits which we are discussing at the moment. These have been granted by financial institutions in various countries. There, again, I quite agree with the drafters of recommendation No. 3. I recognise that it is indispensable to give Germany those means in the form of a recommendation, which the different Governments would make to their credit institutions, and which would allow Germany not to repay the credits in question.

Mr. MacDonald, reverting to the thesis of Mr. Snowden, and supported by Mr. Stimson, is asking for something else, and for more. He says: 'The situation is what it is; it is indisputable that great inequality exists between the volume of credits granted by the different countries.' Turning to us, he asks us to recommend our financial institutions to take a larger volume of those credits so that our situation may be like that of the other countries.

This brings us back to the preliminaries of our meetings. We have always said that Germany was suffering from a lack of credits because she did not inspire sufficient confidence. It would be useless for the French Ministers to make recommendations to our credit institutions that they should grant new short-term credits to Germany; it is hardly likely that these recommendations would be observed. The credit institutions would merely turn to the French Government and ask it to give its guarantee.

I said at the beginning that I wished to promise only what I could keep. From the conclusion to which I have been led by the actual explanations which have been exchanged, I declare that it is impossible for me to give that undertaking, and I am, moreover, sure that no Minister present here would, if the same request were made to him, be able to give such an undertaking in the name of his country.

Mr. Snowden was as clear as possible just now. We know that it was very difficult for the Bank for International Settlements to get the central banks to grant a prolongation of the 100 million dollar credit. I would like to point out to the

Conference that this difficulty did not come from the Bank of France. The latter spontaneously intimated that it was ready to prolong that credit for three months, while the representative of the Bank of England generously offered to prolong it for eight days.

We are now in a delicate situation, where frankness and loyalty must be the rule. France has lent money to Germany whenever she could or she thought fit to do so. The French bankers, acting like the bankers of other countries, consulting their own interests, and in complete independence, have acted as they have thought fit.

If I were now to accept Mr. MacDonald's proposal, what should we achieve? I am not at all sure that France has not lent very large amounts to Germany through the other countries. Now, Germany is in a difficult situation to-day, and it is France who, for all kinds of reasons into which it is not necessary to enter here, would find herself the chief creditor in the actual circumstances of Germany. I think that the bare statement of the observation I have just made enables me to tell you that, on our part, when we accept the text of recommendation No. 3, as it is submitted to us, we are going to the utmost limit to which it is possible for us to go. To go beyond that would mean that we should be making a promise which would not be kept. I have never, as the representative of my Government, made a promise that I was not sure of keeping.

I should like to add that the proposal, as at present formulated, would be of no advantage to Germany. If I have understood it correctly, it only means a new distribution among the different countries of credits already granted; this would mean bringing help to countries which have not expressly asked for it, while Germany, which has immediate needs, would for her part derive no advantage therefrom.

If it is a question of credits to be granted subsequently, I would refer to the observations made by Mr. Stimson with such good sense, when making use of a simile to represent the present condition of Germany; he said that it resembled a bucket with a hole in the bottom, and that it would be of no use to pour water into it—in the form of credits—because they would immediately disappear through the hole as long as the hole was not stopped up.

We come, then, to this question of the atmosphere to be created, this atmosphere of confidence, which must be the result of our deliberations in London, as it was of our deliberations in Paris. After that, France, who has always responded to the appeals that have been made to her on the plane of international collaboration, will see how far she can usefully participate, as she is asked to do.

MR. STIMSON: I only say this in response to the suggestions that have been made by M. Laval, that, so far as we are concerned, I endorsed the suggestion which the Prime Minister made because I thought it was a fair suggestion and in the interests of the crisis which now confronts Germany and the world. Now that the discussion has lasted so long, I only wish to say that there has been no deviation from the position I took in the beginning, that my country, America, is ready to take every measure in the way that I have hitherto suggested to endeavour to see that the credits which we hold shall be maintained.

MR. MACDONALD: So far as we are concerned, we have no intention, and I can say so after consultation, no intention whatever to take out of Germany any of the short-term credits which we hold there unless necessity compels. We hope that will not arise. I have no intention by anything I have said to suggest that short-term credits should be extended in the way M. Laval thinks. I want,

and the Government want, to take concerted measures with the other Governments here to maintain the existing volume of credits already extended to Germany. That is all, and with that explanation we are quite willing to let it go. We will do our best to keep it, but if we cannot, we cannot. I was hoping we might have got co-operation to keep the volume.

MR. STIMSON: May I bring up a suggestion before we adjourn if we have finished this discussion? Apparently there have developed in the course of the consideration of the matters that we have had before us certain questions which may require subsequent attention, not by this body but by the banking representatives of the countries which we represent. We think that it would be well that a committee might be appointed, not of this body, but of banking representatives of our countries, which might act together in attending to these questions of detail or questions of further provision that might come up; and simply for the purpose of showing what I have in mind and not for the purpose of moving the appointment of any such committee, I was going to read the suggested resolution to see whether it met with the views of the Conference as something to be considered:—

‘That this Conference recommends that a committee be appointed without delay composed of a representative selected by the central bank of each of the nations represented at this Conference to undertake co-operation for the following purposes:—

- (a) In consultation with the banking interests in the different countries to endeavour to provide for the maintenance of the present volume of outstanding short-term credits from these countries.
- (b) To make inquiry into the immediate further credit needs of Germany.
- (c) To develop during the course of the next six or eight months plans for a conversion of a portion of the short-term credits into long-term credits.’

Now these questions are questions which, perhaps, are looming in the background of our thoughts as matters which are cognate with the discussions that have taken place here and yet which we cannot handle now, and before we adjourn I will leave this before the Conference as a suggestion of possible action. I do not make it as a motion; I put it as a suggestion.

I further offer this apology. It had escaped my notice when I brought up this new subject that section 3 had not been acted on.

MR. MACDONALD: I was going to remind the Conference of that. Let me do so, and there is another proposal that may affect this. Section 3, America?

MR. STIMSON: I accept in the same manner in which M. Laval accepted the first one. I accept it in the present form and with such modifications as may be deemed essential.

DR. BRÜNING: I agree.

SIGNOR GRANDI: I agree.

MR. MATSUDAIRA: I agree.

M. LAVAL: France accepts it as now drafted—that is to say with the words ‘that they have’.

MR. MACDONALD: We accept it with the conditions that have been stated.

MR. STIMSON: In its present form?

MR. MACDONALD: We accept it in the present form, but the conditions will have to cover ‘we will do our best to carry it out’. We accept it in the very best of goodwill and with the clear determination to carry it out, but with the warnings that were indicated both by the Chancellor and myself.

Then Mr. Stimson has made the suggestion that you have just heard. The

German Delegates have a proposal which they would like to put this afternoon. I am not putting this as business, but I think the Conference before it adjourns ought to be in possession of what the German Delegates are going to suggest when we meet again so that we have time to turn it over in our minds.

MR. STIMSON: My paper was offered merely so that it should be available to the Delegates as a suggestion.

MR. MACDONALD: Dr. Brüning proposes this afternoon, amongst other things, to make this suggestion.

DR. BRÜNING: We agree to the suggestion made by Mr. Stimson, but we think it is necessary that there should be appointed at once a very small committee of experts working on behalf of this Conference with the Reichsbank authorities in Berlin, because when this Conference has come to an end we think it is necessary to keep in touch with the central banks and also to continue the work of this Conference. I will prepare a written proposition about that.

MR. MACDONALD: I would suggest that, as we must do something about this document, the best thing would be to have a drafting committee upon which Chancellors and Finance Ministers should be represented and I would suggest that the suggestions made by Mr. Stimson and Dr. Brüning should be considered, first of all, by the Finance Ministers, who would then report to us. Do you agree to that?

(Agreed.)

Can the Chancellors and the Finance Ministers meet at 4 o'clock? We will meet here.

(Agreed.)

When will the Conference reassemble? It would be a great blessing if we could finish to-night.

M. LAVAL: May I suggest 6 o'clock?

MR. MACDONALD: Will that give the Finance Ministers time? This document requires to be carefully looked at. I think 6 o'clock is rather rushing it.

MR. STIMSON: It is suggested to me that from 4 to 6 o'clock would not be sufficient.

MR. SNOWDEN: I should think it would be plenty of time.

MR. MACDONALD: Dr. Brüning says he expects it will take some time to discuss this.

M. RENKIN: May I suggest that the plenary meeting should be held to-morrow morning?

MR. MACDONALD: That will give time for all sorts of exchanges of views by which I think we should all be benefited.

MR. STIMSON: That supersedes the 6 o'clock meeting?

MR. MACDONALD: Yes, but not the 4 o'clock meeting. Before we go we have to appoint a drafting committee to examine this document.

M. LAVAL: I suggest that the Finance Ministers should do that.

MR. SNOWDEN: I am afraid we are getting a little confused. Let us be quite clear what this meeting of Finance Ministers is expected to do this afternoon. Is it to consider the suggestion made by Mr. Stimson and the suggestion that is coming from the Germans later on; is it to be confined to that? If that be so then our drafting would be confined, if we come to some agreement, to knocking into the form of an actual proposal the suggestions that have been made by Mr. Stimson and which will be made by the Germans. There is no difficulty in doing that. We can arrange as we did yesterday for the necessary drafting, but are we now raising the question of some modification of these recommendations?

Mr. MACDONALD: No, only redrafting. I think it could be expressed somewhat differently. For instance, sub-section 1 does really imply in this form that we are going to exercise authority with the Bank for International Settlements, and that ought to be redrafted in such a way as to make it perfectly clear that we do not exercise authority. I have one or two points to put, changing no substance at all, but I think putting things a little bit better. I also forgot to mention point No. 2.

Now the press communiqué:—

'The International Conference held a further meeting at the Foreign Office at 10 A.M. this morning and gave further consideration to the methods of restoring confidence in the stability of the German financial position by concerted international co-operation on the basis of a statement presented by the Committee of Finance Ministers. Progress was made and certain technical questions were referred to the Finance Ministers, who will consider them this afternoon and report to the main Conference to-morrow morning.'

Do you agree?

(Agreed.)

(The Conference adjourned.)

STENOGRAPHIC NOTES of the FOURTH Meeting of the Conference, held in the Cabinet Room, Foreign Office, S.W. 1, on Thursday, July 23, 1931, at 10 A.M.

Mr. MACDONALD: I have to report to the Conference that the Committee of Finance Ministers have had two meetings, and have decided to recommend a document for the acceptance of the Conference, which I will proceed to read:—

'The recent excessive withdrawals of capital from Germany have created an acute financial crisis. These withdrawals have been caused by a lack of confidence, which is not justified by the economic situation of the country.

'In order to insure the maintenance of the financial stability of Germany, which is essential in the interests of the whole world, the Governments represented at the Conference are ready to co-operate, so far as lies within their power, to restore confidence.

'The Governments represented at the Conference are ready to recommend for the consideration of the financial institutions in their respective countries the following proposals for relieving the immediate situation:—

- (1) That the central bank credit of 100 million dollars recently granted to the Reichsbank under the auspices of the Bank for International Settlements be renewed at maturity for a period of three months;
- (2) That concerted measures should be taken by the financial institutions in the different countries with a view to maintaining the volume of the credits they have already extended to Germany.

'The Conference recommend that the Bank for International Settlements should be invited to set up without delay a committee of representatives of the central banks interested to enquire into the immediate further credit needs of Germany and to study the possibilities of converting a portion of the short-term credits into long-term credits.

'The Conference noted with interest a communication from Dr. Brüning relative to the joint guarantee recently placed by German Industry at the

disposal of the Gold Discount Bank. The Conference are of the opinion that a guarantee of this description should make it possible to provide a sound basis for the resumption of the normal operations of international credit.

'The Conference consider that, if these measures are carried through, they will form a basis for more permanent action to follow.'

I assume that you have all read the document. Are there any observations?

MR. SNOWDEN: Are you proposing to go through the document paragraph by paragraph in order to hear whether there are any suggestions?

M. LAVAL: After all the discussions which have already taken place, I think the Conference might—and this is the feeling of the French Government—purely and simply adopt the text before it. If we embark upon a fresh discussion we shall expose ourselves to a fresh reference to the Finance Ministers' Committee, and then there would be no reason why it should ever end. This document represents an attempt at compromise and conciliation to which I think that the representatives of all the Governments might now subscribe.

MR. SNOWDEN: I am afraid that I cannot accept that. I do not think there will be any disagreement in the Conference about the document as a whole, but there are one or two suggestions for an amendment that one would like to make. I believe that M. Francqui himself has a suggestion in regard to the first paragraph which I think is a very good one.

M. FRANQUI: I would like to suggest the words 'the economic and Budget situation'. Those words were in one of the earlier drafts of this document.

MR. STIMSON: We see no objection to that suggestion, but I hope it will not open the door to a great many others.

M. LAVAL: I have no objection, either, to this amendment.

MR. STIMSON: Would you rather say 'and budgetary'?

DR. BRÜNING: Mr. President, in reply to the amendment put forward by M. Francqui, I would like to make the following observations in regard to the decisions which are being taken by this Conference.

As I said earlier in the discussion, the German Budget itself is balanced owing to the very strenuous efforts which have been made by the German Government with a view to reducing expenditure and increasing the revenue in the Budget. In regard to M. Francqui's proposal, however, I must state that the Budget situation in Germany is largely dependent upon the amount of credits in Germany itself upon which our currency is based, and, while we are very grateful for the spirit of the discussions which have taken place, and accept with gratitude a large part of the decisions that have been taken, we must, nevertheless, express our deep regret that item (2), and the proposals put forward by M. Francqui and those in regard to the Gold Discount Bank, have not been accepted by this Conference as a recommendation. In the earlier part of the discussion I repeatedly pointed out that, in order to maintain the situation in Germany, it was not sufficient merely to maintain foreign credits or to stop the withdrawal of foreign credits, but that it was necessary for Germany to have fresh money.

That is necessary because the German currency, as I have already pointed out, is based upon the foreign credits and the foreign currency which comes into Germany through these credits, and in those circumstances no German Government would be able to maintain the situation of the currency without receiving adequate credits from abroad. Therefore, we regret that item (2) has not been accepted by this Conference as a recommendation because we thought that the psychological

effects of such a recommendation would be very good. I would like to place this regret here on record without wishing to interfere with the other work of the Conference thereby. I would like at the same time to stress this point, that we consider that the decisions of this Conference can only be calculated to give a temporary relief and to constitute relief measures for a very short period, and that the necessity will arise very soon for a new meeting to be held and for new decisions to be taken. I would like to stress in this connection that Germany herself has done everything she could in order to maintain the situation, but that the withdrawal of foreign credits upon which the payment of reparations was based, upon which our currency is based, and upon which our whole economic life is based, has created a situation which it is impossible for the German Government alone to face without receiving help from abroad. I wish to stress the seriousness of the situation again before we close the work of this Conference, because I would consider it as shirking responsibility if I did not at this last moment point out the extreme gravity of the situation in Germany to the members of this Conference.

MR. MACDONALD: I suggest what ought to be done is that Dr. Brüning's observations should appear in our record.

MR. SNOWDEN: Does Dr. Brüning agree to the insertion of the words 'and budgetary'?

DR. BRÜNING: Yes.

MR. MACDONALD: Is it agreed that those words be inserted?

(Agreed.)

MR. SNOWDEN: I understand Dr. Brüning raised another point.

DR. BRÜNING: I must again raise the question of the nomination of the committee.

MR. MACDONALD: To come back to the document, paragraph (1), paragraph (2), paragraph (3), clause (1). Clause (2)—I think that is what Dr. Brüning wishes to say something about.

DR. BRÜNING: I have to raise again the question of the nomination of the representatives of the central banks, as stated in this clause, 'To enquire into the immediate further credit needs of Germany', and so forth. I must raise that matter again and put it before the Conference. We should like the first proposition of Mr. Stimson reinserted, that the central banks should nominate the representatives. If the Conference is not able to agree I have to put forward the proposition which I put on record yesterday. Yesterday I said that the German Government would like to have three gentlemen who are connected with the central banks, who would go at once to Berlin and work together with the German Government. If the Conference thinks it better to adopt the recommendations as they are set out here, then the German Government will at once invite three gentlemen connected with different central banks to go immediately to Berlin and work together with, and give their advice to, the German Government and the German authorities because we think, as I said yesterday, that the situation is so serious that we must at once get the advice of gentlemen of international standing in order to get over the situation.

MR. SNOWDEN: This matter was considered at very great length by the Committee of Finance Ministers who met yesterday. Dr. Brüning, at that meeting, raised the objections he has just put forward against the nomination of this committee by the Bank for International Settlements. We made the recommendation which is embodied in this report. I never understood that this report was sacro-

sanct; that, like the Tables of the Law, it was written on tables of stone amid the thunders of Sinai. I think the greater wisdom of this Conference might be able to make improvements in this draft. I have a great deal of sympathy with Dr. Brüning's point of view, and I think in this matter the views of the Germans ought to carry very great weight and even, I think, almost to have a decisive voice in the matter. They know the internal position of Germany and the public opinion of Germany better than the representatives of other countries could possibly know it. Dr. Brüning urged the point yesterday that the Bank for International Settlements is not a very popular institution in Germany and that, if we decided to recommend that the Bank for International Settlements should make the nominations to this committee, it would have a very bad effect in Germany. I do not think there is any need, in order effectively to carry out the object we have in view, to place the nominations in the hands of the Bank for International Settlements. We made this recommendation yesterday more as a matter of convenience than anything else, because we realised that there must be some body that would appoint the members of this committee. I would like to suggest an amendment to the clause as now under consideration, which does not at all alter the meaning and purpose of the clause, but which will carry out the idea Dr. Brüning has put forward, and remove the objection he feels to the paragraph in its present form. With your permission, Mr. Chairman, I would like to read to the Conference a substitute for the earlier part of this paragraph. As it appears in the draft it reads:—

'The Conference recommend that the Bank for International Settlements should be invited to set up without delay a committee of representatives of the central banks interested to inquire,'

and so on. Up to the word 'interested' I would suggest this amendment. This goes back very much to the form Mr. Stimson suggested yesterday:—

'The Conference recommend that a committee should be set up without delay, consisting of representatives of the central banks of the countries represented at the Conference, together with representatives of the central banks of Holland, Switzerland and Sweden'

and then go on 'to enquire into the immediate further credit needs of Germany', and so on. That will bring in all the banks who are in a position to give help in carrying out this suggestion that an inquiry should be made into the need of Germany for further credits, and it will, at the same time, remove the objection that Dr. Brüning feels is so strong.

M. FLANDIN: I am afraid I cannot agree with Mr. Snowden's suggestion. The text he has proposed does not meet the practical objections raised yesterday. When Dr. Brüning objected yesterday to the intervention of the Bank for International Settlements, he took his stand chiefly on the fact that undue delays would occur in setting up the committee, which he wished to see entering upon its activities as soon as possible.

I do not believe that the new method, which would consist in the Conference appointing the representatives of the central banks, would hurry things up in the least. It would run the risk of achieving a directly contrary result. In the text, in fact, there is nothing to show who is to choose the representatives of the central banks, nor where they are to meet. Finally, the agreement of the central banks has not so far been given in advance.

For all these reasons it is simpler to let the Bank for International Settlements, which has not only a seat, but a whole documentation already usefully composed,

undertake the duty of appointing the committee. This method would present this further advantage, that we should not run the risk of setting the committee thus appointed in opposition to the inquiry which might be carried out by the Bank for International Settlements. There is nothing, indeed, in the Statutes of the Bank to prevent the latter deciding that such an inquiry shall not be undertaken. What would be the result if we had, on the one hand, the conclusions arrived at by the Bank for International Settlements, and, on the other, those of the specially appointed committee?

Moreover, the question is not whether the Bank for International Settlements is popular in Germany or not. This institution is presided over by an American. It comprises the governors of the most important central banks, and, in particular, of the central banks enumerated here. To set the Bank for International Settlements aside, and to appeal to the central banks, the delegates of which are already at Basle, and are precisely those in view in the present memorandum, would look like throwing some kind of discredit upon that institution, and on the personality of its American President, who would be the only person left outside the constitution of the committee we wish to set up. This is a circumstance we cannot accept, and we ask the Conference to adhere to the text adopted yesterday after a very long discussion.

MR. MACDONALD: Are there any further observations? Those in favour of the amendment?

In favour—

Germany.

Italy.

Against—

America.

Belgium.

France.

Japan: No observations.

M. MATHIEU: The amendment is rejected?

MR. MACDONALD: I have not yet given a ruling. The ordinary ruling on such an occasion by a Chairman who wishes to be absolutely neutral, as I do whilst I am in the Chair, is that the amendment has not been carried.

MR. SNOWDEN: May I, then, submit a further amendment that might meet with the support of those who are not in favour of the amendment that I submitted just now?

It would be this—it only means adding six words:—

‘The Conference recommend that the Bank for International Settlements should be invited to set up, without delay, a committee of representatives nominated by the governors of the central banks interested.’

MR. STIMSON: I had assumed that the process suggested by the Chancellor of the Exchequer’s amendment is the one which in all probability would be followed by the Bank for International Settlements, and I think I should prefer to depend upon that being done than to impose limitations.

M. FLANDIN: I agree with Mr. Stimson.

MR. MACDONALD: Have you any observations, Dr. Brüning?

DR. BRÜNING: We are prepared to accept the proposition of the Chancellor.

MR. STIMSON: May I say this? I may be labouring under a misunderstanding,

but it seems to me that the difference of opinion that has existed between us on this point may have arisen from the difference between the functions of the committee proposed to be set up in my original proposition and those of the committee of experts which Dr. Brüning wishes should visit the Reichsbank without delay. I sympathise with Dr. Brüning's desire to have such a committee as promptly as possible, but it seems to me that its function is different from the function of the committee which I had in mind when I made the proposition which has been embodied in the clause. Whereas the committee which I had in mind was a committee which should make an extended study, acting with quasi-judicial impartiality, find the answers to certain questions, and make a recommendation on behalf of all the central banks, what I think Dr. Brüning had in mind, from what he said yesterday, was a committee that would at once go to Berlin and act as the adviser and counsellor of the Reichsbank. That is quite a different function, and I think it may be a very valuable function. If Dr. Brüning feels that the Reichsbank needs it, it should have it, but I think our difficulty comes from confusing two purposes and trying to embody them in one group of individuals. For my own part, therefore, I think that the purposes which I had in mind would be better carried out by this proposal of the Committee of Finance Ministers than in any other way, and that the proposal before us would most nearly conduce to the object I had in mind. My suggestion would be that the other committee, having different functions, should be set up by Dr. Brüning or by the Reichsbank by invitation in whatever way they might see fit, but I think the two things are quite different and that it would be a mistake to confuse them. If Dr. Brüning needs the moral support of this Conference here assembled as to the wisdom of his suggestion, I for one should be inclined to give it to him in whatever form he needs it, but I would not mix it up with the other committee which it was my proposal to create. I may be quite wrong, but that was the impression made upon me by what I heard in the discussion here.

DR. BRÜNING: That is quite so.

M. FLANDIN: I agree with Mr. Stimson.

DR. BRÜNING: I think Mr. Stimson understood me quite rightly. There are two different committees, and the first one, which is to go immediately to Berlin, the German Government will ask some gentlemen to form to give advice in regard to financial matters to the Reichsbank; but, to speak quite frankly, we are not opposed to the second committee at all. We only object, for psychological reasons, that the Bank for International Settlements should have the right to nominate these members of this Committee proposed in the recommendation of the Conference because, Mr. Stimson, I do not say I share this view of the mass of the German population, but there is no doubt about it that so far we have not had the help from the Bank for International Settlements that we should have liked to have had, and especially when we invited the Board of Directors of the Bank for International Settlements to go last Sunday to Berlin to see how matters stood with their own eyes, we had a refusal, and this made a deep impression upon the German mind, which was far from being a good one. That being so I fear that this will be a great drawback to the political situation in Germany and also militate against an optimistic view being taken by the German people as to help which is proposed by this Conference.

MR. MACDONALD: Well, as I understand the two points that Mr. Stimson has made, he assumed, in appointing this committee, the Bank for International Settlements would follow practically the lines indicated in the amendment; and

the second point is that, in Mr. Stimson's opinion, the German Government might quite properly appoint the committee indicated by Dr. Brüning.

M. LAVAL: I believe, moreover, that the objection of Dr. Brüning is not as strong as it was. The Governments have met; they are framing recommendations; they are asking the Bank for International Settlements to carry out a mission. This is a new fact which did not exist when the Bank for International Settlements refused to proceed to Berlin as the Governor of the Reichsbank had asked it to do.

In these circumstances I think we can, without difficulty, adhere to the view which Mr. Stimson was developing just now, and that thus Dr. Brüning will be satisfied.

In paragraph 1 we are asking the Bank for International Settlements to prolong for three months the credit of 100 million dollars. It would seem rather illogical, I venture to say rather inelegant, to condemn the same Bank for International Settlements in the fourth paragraph.

MR. SNOWDEN: There is no proposal in my second amendment to take away from the Bank for International Settlements any rights that they have or to put them in a humiliating position, because if my amendment be carried, the Conference will still recommend that the Bank for International Settlements be invited to set up this committee without delay. Now Mr. Stimson said that the procedure I suggest in my amendment, that is, that the representatives should be nominated by the governors of the central banks, would probably be the method the Bank would adopt, and if that be so, I see no reason at all why we should not put in the words I suggest, especially as Dr. Brüning feels so strongly upon this matter, and if it would be any satisfaction to him to have those words inserted, I think the Conference really ought to show some consideration for his point of view and accept them.

MR. MACDONALD: Shall I proceed to put the question? The proposal is, after the word 'representatives' to add the words 'nominated by the governors of the central banks'.

M. FRANCOU: As a member of the Managing Board of the Bank I can tell you myself that in practice it will be the Governor of the Bank of England who will appoint the British member and M. Moreau who will appoint the French member. As a matter of fact, it could not be otherwise, because only the governors of the central banks can vote, so you may be fully assured that this will be done.

MR. SNOWDEN: That strengthens my position. There is no harm done in putting this into the recommendation and it will give satisfaction to the German representatives.

M. FRANCOU: That might not please the Managing Board of the Bank, if you recall to them their duty as explained in the statute. They know what they have to do.

MR. MACDONALD: I think we had better settle it in the usual way.

M. LAVAL: There is only one important thing in the paragraph, that is, what the Governments will do with the advice of the Bank for International Settlements when they have got it. It is obvious that the Governments' liberty of action is reserved; that is self-evident.

MR. MACDONALD: Very well, I will put the question that those words be inserted. America?

MR. STIMSON: It seems a matter of very slight importance to me because the Bank will undoubtedly follow out that course. The only advantage of the form in which it now stands is in case of some real trouble or some action by one of the

banks who might not send in a nomination. The real power would be known as to where it was, and the vacancy could be filled in case of emergency. There is no doubt, as M. Francqui well suggests, there is no doubt that the Directors of the Bank for International Settlements will do their best to follow the wishes and suggestions of the governors of the central banks, so that I really think it is a matter of very small importance, and I think it is immaterial. Though I should have preferred the language in its present form, I would not oppose the other if the other is desired by the rest of the Conference and by Dr. Brüning.

MR. MACDONALD: But I am under the painful necessity of asking you to plead 'guilty' or 'not guilty'. For, against or neutral.

MR. STIMSON: We are really neutral, but we will make it unanimous.

MR. MACDONALD: Unanimous in favour or against?

MR. STIMSON: Either way.

MR. MACDONALD: Belgium?

M. FRANQUI: In favour.

M. LAVAL: In favour, to please Dr. Brüning.

SIGNOR GRANDI: In favour.

MR. MATSUDAIRA: In favour.

MR. MACDONALD: Then the paragraph beginning 'The Committee noted with interest', the last paragraph but one.

(Agreed.)

The final paragraph?

(Agreed.)

Then the whole document as amended by the finding of the Conference.

(Agreed.)

There are now two pieces of business that have not been taken. The Conference will remember that, when it was intended to call this Conference first of all, the proposal was that it should be preceded by a conference of experts to discuss and give us guidance as to how President Hoover's proposal might be given effect to, in view of certain difficulties in detail that had cropped up since the announcement of the proposal. I would propose that as the experts have not had time to meet and discuss this that their labours should be continued, and that they should report to the various Governments concerned in them. I think America is not concerned.

MR. STIMSON: I understand that to be the case.

MR. MACDONALD: The experts, then, would meet and make recommendations to the Governments. We should be very glad if, at the same time, we had the assistance of America. There is some misunderstanding, I think, about the position of America. It is included.

MR. STIMSON: Of course, there is an American representative on that committee of experts. I understood, however, that you asked me the question as to whether the details which they were at work on were details which concerned America. That, I understand, is not the fact. America was concerned, of course, with the general proposition, but the particular details which this committee was to examine and formulate were details which did not concern my country as I understood it. We are concerned in seeing that the result of the committee conforms to the general purpose of the President's proposal, but not other than that.

MR. MACDONALD: With that explanation, does the Conference agree that the experts proceed with their work?

(Agreed.)

Then I think in the general Conference Dr. Brüning raised the question of the German Bank Law, providing that if the cover to the currency is reduced below a certain percentage, then the bank discounts must be increased very substantially. They are now in that position, and they raised the point as to whether the Conference could not express a view in some shape or form asking the Bank for International Settlements to exercise its powers under The Hague Agreement. We have not answered that question. If there is an agreement that something should be passed, it might take a form like this:—

‘The Governments represented on the Conference agree that Sections 29 and 31 of the Reichsbank Law require amendment to take account of the present situation, and they trust that the Bank for International Settlements will arrive without delay at an agreement with the German Government on the subject.’

M. LAVAL: We cannot accept that text.

MR. MACDONALD: I understand one objection is reference to Sections 29 and 31, and the proposal is that these definite words should be deleted and indefinite words put in to this effect:—

‘Agree that certain amendments are required in.’

M. LAVAL: The Bank for International Settlements has powers proper to itself. To ask the Governments represented here to make a recommendation to the Bank would appear to me to go outside the scope of the aim which has brought us together. The Bank for International Settlements will, as it sees fit, and in the manner it deems suitable, examine Dr. Brüning’s proposal, but France would be unable in any way to accept this thesis.

Besides, the procedure was fixed at The Hague, and we have no desire in any way to reopen any of the conventions reached at The Hague.

MR. SNOWDEN: I wonder whether this would meet the French position if we amended this form to read:—

‘That the German Government approach the Bank for International Settlements to take into consideration the exercise of its powers under The Hague Agreement in regard to the Reichsbank Law.’

M. LAVAL: The German Government will act as it likes; it will get into touch with the Bank for International Settlements if it sees fit; but the Governmental Conference must avoid, even in this indirect way, recommending inflation to the German Government.

DR. BRÜNING: I think the proposal put forward by the Chairman of this Conference does not recommend any inflation at all. What we have done is the opposite of inflation. We have put forward a policy of deflation for the last few months, and I am prepared to put on record the declaration of the German Government that the German Government is prepared to do all that is possible to keep up the stabilised mark, as was proposed yesterday by M. Francqui.

MR. SNOWDEN: It might be well to remind the Conference again of the powers the Bank for International Settlements has upon this matter under The Hague Agreement. They are set out in Annex 5 A, and the proposal must come first from the German Government, and then the Bank must consider the proposal of the German Government, and, if it be not incompatible with the Young Plan, then they may, at their discretion, accept the suggestion of the German Government. Therefore, in a way, it is not necessary at all for this Conference to make any

representations, because the German Government have the power at present to make representations to the Bank for International Settlements.

MR. STIMSON: Is it not a fact that the Bank for International Settlements, in exercising its powers here, is supposed to act again in a wholly impartial and discretionary and judicial way after a full knowledge of the situation and the needs which might lie behind such an amendment, and is it not to be assumed it will so act, and that it will have a better knowledge of the situation than this Conference can possibly have? I did not know even that such a proposition was before us until it was sent round, and I confess I would act in ignorance, in which I hope the Bank will not act if it is called upon to take action, and the only effect I can see of such a motion is to put pressure on the Bank to act differently and in a less judicial way than it would act without that pressure.

DR. BRÜNING: May I read the declaration of the German Government, which I should like to put on record:—

‘The German Government declare that they will do their utmost to maintain the monetary and economic stability of Germany, but, in so doing, they are counting on assistance from the world.’

Perhaps we might meet the view of the French Government by inserting a new clause, that it should not touch the privilege of note issue and the independence of the Reichsbank.

MR. MACDONALD: It is an addition.

M. FLANDIN: Really we are endeavouring to improvise on the spot texts which properly deserve exhaustive discussion. There is nothing in the world more fragile than credit. Up to now we have endeavoured to unite our efforts to re-establish confidence in the situation of Germany, in the German currency. Now, at the last minute, without an exhaustive discussion, in the hurry of winding up the Conference, we are presented with texts which are liable to produce the gravest disturbances in the world as to the confidence which it might have in the value of the German currency. I will only cite one example. If this amendment were adopted, it applies to Article 31 of the Reichsbank Law. Has anybody looked at this Article?

Article 31 provides that the Reichsbank must always reimburse the notes to the bearer. Ought we to deduce from the fact that the Conference had recommended an amendment to Article 31 that the Reichsbank would to-morrow no longer be obliged to reimburse the notes to the bearers? Even if we said the opposite, how could one avoid arriving at this conclusion from the hope we should have expressed? I do not understand this way of proceeding. From the German point of view we are going at one stroke to ruin, by a decision of this kind, all the efforts made during the last three days to restore confidence in the German currency and in the German economy. We are asked to proclaim in the face of the world that it is necessary for the Reichsbank to apply to the Bank for International Settlements to obtain the alteration of the fundamental Articles which regulate the fate of its currency. There is nothing more fragile than these fundamental Articles. If Germany had to go to the Bank for International Settlements in this connexion, she ought to do so with the greatest caution and in the utmost secrecy, so as not to injure her credit. The Governments have made efforts to resurrect confidence. We are asked to overthrow the whole conception and not to take the most essential guarantees. It is provided in the annex which established a procedure to be observed for the modification of certain Articles of the German Reichsbank Law

that any proposed amendments which might affect its provisions must be laid before the Managing Board of the Bank for International Settlements. A proposal ought accordingly to be produced. We have not been told how it is desired to alter these Articles 29 and 31.

As a matter of fact the amendment before us is almost an abrogation of the Articles, leaving complete liberty for the drafting of others. They are the fundamental Articles on which the Germany currency is based. I beg Dr. Brüning to think this over: if the Conference adopted a resolution of this kind, we should have ruined, at the end, the whole work which we have tried to carry out.

MR. MACDONALD: I would like to remind the Conference—I have the minutes before me—that we had a long discussion on this subject at our second meeting, and it was left in abeyance. It was only on looking through these minutes, to see that everything was being dealt with, that I brought this up. I bring this up, not as a representative of the British Government, but I bring this up as the Chairman of the Conference, so that no loose ends will be left. Let there be no misunderstanding on the matter at all. What are you going to do about it?

M. LAVAL: Nothing.

MR. SNOWDEN: I am inclined to agree with that. I agree very largely with what M. Flandin said about the danger of any action which is likely to interfere with the delicate instrument of credit. I do not know that this Conference is called upon to take any action in this matter, because there is already a provision in The Hague Convention for action to be taken by Germany. Germany can put her proposals before the Board of the Bank and then it will be for the Bank to decide whether those proposals are an infringement of The Hague Convention or not. If there be any doubt upon the matter, then it can be referred to arbitration and a tribunal, but it would be a very dangerous thing indeed and, I think, as M. Flandin said, it would have its repercussions, dangerous repercussions, upon German credit if anything were done to destroy the gold guarantee, the gold basis of their present currency issue.

On the whole, I am inclined to think that it would be best if the Conference took no action in the matter, but left it to the German Government to place what proposals they thought fit, what they regarded as necessary, before the Board of the Bank.

MR. MACDONALD: The German Delegates concur in M. Flandin's proposal, and the matter therefore terminates.

So far as my agenda goes, I have finished. We have been considering the declaration that we shall make, and I would like to have your views. We have been considering how it should be made official, and we have been advised by our legal advisers that the proper procedure is for the declaration to be signed by me as Chairman, and by the Secretary-General as a sort of witness to my signature. It then becomes an official declaration and copies will be sent to you. Do you agree with that procedure?

(Agreed.)

That concludes the business.¹

¹ The Conference ended with a vote of thanks to Mr. MacDonald as Chairman. The vote was proposed by M. Laval and seconded by Mr. Stimson and Dr. Brüning: the Heads of the Delegations associated themselves with M. Laval's proposal. M. Laval, Mr. Stimson, and Dr. Brüning also referred with satisfaction to the meeting of French and German Ministers in Paris.

APPENDIX II

Report of the Committee appointed on the Recommendation of the London Conference, 1931

The Seven-Power Conference which met in London from the 20th to the 23rd July, 1931, recommended for the consideration of the financial institutions in the interested countries that (1) the £20 million credit to the Reichsbank should be renewed at due date for a further three months; (2) concerted measures should be taken by financial institutions to maintain present credits; (3) the Bank for International Settlements should be invited to convene a committee to enquire into Germany's immediate further credit needs and to study the possibility of converting a portion of the short-term credits into long-term. The official communiqué added that lack of confidence in Germany 'is not justified by the economic and budgetary situation', and that the above measures, if carried through, 'will form a basis for more permanent action to follow'.

Acting on the third of the recommendations of the conference, the Bank for International Settlements took steps to convene the proposed committee, which consisted of the following members: Nominated by the Bank of Italy, Signor Alberto Beneduce, president of the Consorzio di Credito per le Opere Pubbliche, Rome; nominated by the Swiss National Bank, Dr. R. G. Bindschedler, vice-president of the Board of Directors, Crédit suisse, Zurich; nominated by the Netherlands Bank, M. P. Holstede de Groot, managing director, Amsterdamsche Bank, Amsterdam; nominated by the National Bank of Belgium, M. Emile Francqui, vice-governor of the Société générale de Belgique, Brussels; nominated by the bank of England, Sir Walter T. Layton, C.H., C.B.E., editor of the 'Economist,' London; nominated by the Reichsbank, Dr. Carl Melchior, partner of M. M. Warburg and Co., Hamburg; nominated by the Bank of France, M. Emile Moreau, former Governor of the Bank of France, president of the Board of Directors, Banque de Paris et des Pays-Bas, Paris; nominated by the Bank of Sweden, M. Oscar Rydbeck, manager, Skandinaviske Kreditaktiebolaget, Stockholm; nominated by the Bank of Japan, Mr. T. Tanaka, representative in London of the Bank of Japan; nominated by the Federal Reserve Board, Mr. Albert Wiggin, chairman of the Board, Chase National Bank of New York. The committee at its first meeting elected Mr. Wiggin as its chairman.

The text of the report was signed unanimously in Basle on the 18th August, and is printed in full below.¹

The communiqué issued at the close of the International Conference, composed of representatives of the Governments of the United States of America, Belgium, France, Germany, Italy, Japan and the United Kingdom of Great Britain and Northern Ireland, which met in London from Monday, the 20th July, to Thursday, the 23rd July, contained the following paragraph:—

'The Conference recommend that the Bank for International Settlements should be invited to set up without delay a committee of representatives nominated by the governors of the central banks interested, to enquire into the

¹ This report was published in Great Britain on August 22, 1931.

immediate further credit needs of Germany, and to study the possibilities of converting a portion of the short-term credits into long-term credits.'

In accordance with this recommendation the Bank for International Settlements invited us to meet at Basle on the 8th August. Having carefully considered the official documents laid before us setting out the German situation, we beg to submit the following conclusions regarding the two problems remitted to us.

I. *'The Immediate Further Credit Needs of Germany'*

The crisis which has occurred in Germany during the last two months has supervened on a condition of exceptional world depression marked by a severe fall in wholesale prices on the international markets of the world, by a drastic reduction in international trade, by very widespread unemployment in industrial countries, and by acute financial difficulties for agricultural communities dependent upon export trade. As one of the great trading nations of the world, it was inevitable that Germany should feel the effects of the depression in an exceptional degree. It is important at the outset to recognise that the situation we have been asked to consider is in part a phase—albeit a very acute one—of a problem which has affected in varying degree all countries of the world, and that no permanent improvement in the German situation can be looked for until the causes of the general depression have been removed. On the other hand, Germany plays so important a rôle in the economic life of the world, and in particular of Europe, that until the situation in Germany improves there can be no general recovery from the existing state of depression.

There is, however, a special feature in Germany's situation which has made her exceptionally vulnerable. We refer to the great increase in Germany's indebtedness to foreign countries. Figures showing how this situation has arisen and the indebtedness of Germany when the crisis came have been supplied to us.

Statistics of foreign indebtedness and of some items in the international payments of a country are necessarily based in part upon estimates and sample enquiries. In those cases where it is possible to compare the figures put forward with figures compiled in other countries there is substantial agreement. But it is, of course, not possible to make any such check over the whole field. We believe, however, that the statistics supplied to us on the authority of the German Government present a picture which is a fair representation of the facts.

Germany's increasing Indebtedness

During the seven years 1924–30 inclusive Germany's foreign indebtedness grew faster than her foreign assets by 18·2 milliard reichsmarks. The total indebtedness increased to 25·5 milliard reichsmarks; but this is partly offset by Germany's own investments abroad.

This net influx of capital to the extent of 18·2 milliard reichsmarks, together with 3 milliardi which she has received for the services of her shipping and other services to foreigners, has enabled her—

- (a) To pay interest on her commercial debt amounting during the seven years to 2·5 milliard reichsmarks;
- (b) To add to her holding of gold and foreign Devisen to the extent of 2·1 milliard reichsmarks;
- (c) To pay reparations amounting to 10·3 milliard reichsmarks; and
- (d) To pay for a surplus of imports over exports (including deliveries in kind) to the extent of 6·3 milliard reichsmarks.

The situation regarding Germany's balance of international payments has not, of course, been the same in each of the seven years; but Table I⁽¹⁾ annexed to this report shows that in four of the years in question Germany's net borrowings abroad not only exceeded the interest, &c., on her commercial debt as well as her reparation payments, but also enabled her to pay for a surplus of imports. This means that during these years, although German private borrowers provided the funds for paying the interest on their foreign debts, and although the Government raised in taxation or otherwise the funds with which it met the external obligations of the State—whether political or commercial—the German economy drew capital into the country by means of high rates of interest to an amount greater than was paid out in these ways. The payments made to foreigners in these years, therefore, have not been effectively made out of Germany's own resources, and will not be so made until such time as a corresponding part of these commercial debts are repaid by the export of gold, goods or services.

In 1926 and in 1930, on the other hand, German borrowings were small, and her exports showed an excess over imports, while in 1929 imports and exports balanced. The following figures show the position in 1930 in comparison with that in 1929:—

(In milliards of reichsmarks)

	1929	1930
Imports	13·6	10·6
Exports (including reparation deliveries in kind)	13·6	12·1
Proceeds of export surplus	—	1·5
Net proceeds of invisible exports (services, shipping, &c.)	0·5	0·2
Net foreign borrowings	2·7	0·7
Net efflux of gold and foreign exchange of the Reichsbank	0·1	0·1
Total available to meet foreign payments	3·3	2·5
Interest on commercial debts	0·8	0·8
Reparations	2·5	1·7
	3·3	2·5

Thus, in 1930—an exceptional year in which prices of raw materials fell rapidly—a favourable commodity balance was achieved in spite of lower exports, by a considerable reduction in imports due largely to the fall in prices. This, together with the proceeds of invisible exports, provided two-thirds of the amount required to meet Germany's foreign obligations (which had been reduced in consequence of the lower reparation annuity payable under the Young plan), leaving nearly one-third to be covered by borrowing.

The capital position of Germany *vis-à-vis* foreigners at the end of 1930 appears to have been as follows:—

(In milliards of reichsmarks)

Total foreign investments in Germany	25·5
Total German investments abroad	9·7
Net debt to foreigners	15·8

The weakness of the German financial situation arises from the fact that whereas about 5·3 milliard reichsmarks of Germany's investments abroad at the end of 1930

¹ Not printed.

(including the foreign exchange of the Reichsbank, amounting to 0.8 milliard reichsmarks) were on short-term, Germany's short-term foreign indebtedness amounted to no less than 10.3 milliard reichsmarks, this latter figure having increased from 4.1 milliard reichsmarks at the end of 1926. Of these 10.3 milliard reichsmarks, 1.1 milliard reichsmarks consisted of the short-term debts of the Reich, Federal States and municipalities, 7.2 milliard reichsmarks of obligations of the banks, and the balance of other short-term liabilities. No detailed analysis is available as to the source and nature of these debts as at the 31st December, 1930, but so far as the debts of the leading German banks are concerned, an enquiry in respect to the situation on the 31st March, 1931, shows that out of a total of 5,636 million reichsmarks, 37.1 per cent. was due to the United States, 20.4 per cent. to England, 13.9 per cent. to Switzerland, 9.7 per cent. to Holland, 6.5 per cent. to France, 2.2 per cent. to Sweden, and the remaining 10.2 per cent. to other countries. About 47 per cent. of these debts consisted of foreign trade acceptance liabilities, 40 per cent. of deposits, &c., payable in foreign currency, and the remainder of reichsmark balances of foreign creditors.

A comparison of the foreign assets and liabilities of the German banks shows that against these liabilities at the end of the year 1930, amounting to 7.2 milliard reichsmarks, the German banks had short-term assets abroad amounting to 2.5 milliard reichsmarks. Part of the increase in the short-term debt between 1925 and 1929 was a normal accompaniment of the increase which had taken place in the turnover of Germany's foreign trade, which rose from 21½ milliard reichsmarks in 1925 to over 27 milliards in 1929. The increase, however, was quite out of proportion to the growth of foreign trade, and there can be no doubt that the short-term credits of German banks have to a very large extent been used in the internal economy of Germany as working capital and therefore cannot be readily withdrawn without grave damage to the financial structure. The greatest increase occurred in the three years 1927, 1928, and 1929, when the short-term foreign borrowings exceeded short-term lending abroad by 4.3 milliard reichsmarks. It would have been better, of course, if these short-term debts could have been converted into long-dated debt, certainly to the extent of establishing a fair equilibrium between what Germany owed at short-term and what Germany could pay within the same periods. But such conversion was not made and probably could not have been made. In consequence it is evident that short-term money was being used to do the work of long-term money, with corresponding risks to both borrowers and lenders.

The situation in 1931

During the first six months of this year, although Germany's exports fell off, her imports fell to a still greater extent and her commodity trade surplus (including deliveries in kind) amounted to 1 milliard reichsmarks, to which should be added 0.1 milliard reichsmarks for invisible exports. This failed to cover her external obligations (interest on commercial debt 0.4 milliard reichsmarks and reparations 0.9 milliard reichsmarks) by 0.2 milliard reichsmarks. There was also a very considerable outflow of capital funds which Germany had to meet.

Figures of the capital position as at the end of June are not available, but investigations have been made into the situation in July. The statistics contained in Annex IV (1) show that at the end of July the short-term debt of Germany,

¹ Not printed.

excluding the credits recently obtained by the Reichsbank, compared as follows with the debt at the end of December, 1930:—

(In milliards of Reichsmarks)

<i>Short-term debt of Germany</i>	<i>December 31, July 31,</i>	
	<i>1930</i>	<i>1931</i>
Short-term debts of the public authorities	1.1	0.8
Short-term debts of the banks:—		
(a) Current account and acceptance liabilities	7.0	—
(b) Other liabilities	0.2	5.1
Other short-term liabilities	2.0	1.5
Total short-term indebtedness	10.3	7.4

Thus the withdrawal of short-term funds amounted in the seven months to 2.9 milliard reichsmarks. In addition, there was a certain amount of selling by foreigners of long-term investments in Germany, mortgage bonds, &c., and purchasing by Germans of long-term or short-term investments abroad. The sum of these movements appears to have amounted in round figures to about $3\frac{1}{2}$ milliard reichsmarks. This outflow has been met approximately as to 1 milliard reichsmarks from the foreign assets of the banks, as to 2 milliard reichsmarks from the assets of the Reichsbank (including about 630 million reichsmarks placed at the disposal of the Reichsbank by the Bank for International Settlements and Central Banks, and by a New York syndicate through the Golddiskontbank), and as to the balance from other German assets abroad.

Germany's future Balance of Payments

Whether under more normal conditions it is possible for Germany to provide out of her own savings the whole of the capital she needs for her internal development, and, in addition, to meet in whole or in part her commercial and State obligations to foreign countries; or, alternatively, whether she needs a contribution from abroad—as in the last seven years—towards her internal capital requirements and to borrow the sums needed to meet the whole of her foreign obligations, is not a question that we have been asked to decide. We would only emphasise that if the piling of Pelion on Ossa continues, and the obligations of each year are added to the debt, there must be a steadily increasing charge under the heading of interest (including amortisation) on the commercial debt; and, further, that if any considerable proportion of the growing debt is borrowed on short-term, it will leave her increasingly vulnerable to crises of the kind which she is now experiencing. It is not, however, necessary to attempt an answer to this question in estimating Germany's immediate credit need, seeing that her balance of payments has been almost entirely relieved from the payment of reparations for a period of twelve months.

Immediate Needs

The points to which we have specially directed our attention are, firstly, whether it is possible to prevent a further withdrawal of capital from Germany and to replace those short-term credits that become due; and, secondly, whether it is necessary to replace from foreign sources all or part of the capital which has already been withdrawn.

Standstill Arrangements

With regard to the first of these points, we have placed ourselves in touch with the banking groups which have been negotiating with Germany as to the terms on which existing short-term credits should be maintained.

At our invitation representatives of these groups and of German banks met in Basle on Friday, the 14th August, and, after five days' study and consideration, have agreed upon and will recommend a plan of prolongation of such credits to the numerous creditor banks and bankers for their acceptance. This agreement provides for the continuation of credits to German debtors up to the total then outstanding for a period of six months from the date of the signing of the agreement, subject to an arrangement being made with regard to the existing central bank credits.

An individual agreement in an approved standard form will be made in every instance directly between the German debtor and the foreign creditor. The form of this agreement has been drawn up so as not to interfere in any way with the normal relations previously existing between the parties; while it involves certain specific assurances, it is essentially based upon the broad foundation of mutual confidence.

Recognising that it is to their interest to assist in every way possible to ensure the stability of the reichsmark, the foreign creditors have come to an arrangement with Germany that the immediate release of their reichsmark balances shall be only partial and that the remainder shall be gradually released during the term of the agreement.

The plan further provides two forms of additional security to the creditors participating in the plan. One is to associate a direct responsibility on the part of the final credit-taker with that of the debtor bank itself. The other is an undertaking by the Deutsche Golddiskontbank to take over or to guarantee, within certain limits, the indebtedness to foreign creditors, thus lending the important support of the Golddiskontbank's resources and prestige to the obligation.

Provision has been made to secure by Government decree or otherwise that foreign creditors of German banks shall receive equal protection to that of creditors residing in Germany.

For the adjustment of any differences which may arise as to the interpretation and execution of this agreement, the Bank for International Settlements has, at the request of all parties to the agreement, and in view of its international functions, agreed to set up a committee with full power to deal with such cases. The figures given in Annex V (¹) will give some idea of the sums involved.

This agreement, however, does not directly cover certain other classes of Germany's short-term debt, including those of the German Federal States and municipalities, which amount to 355 million reichsmarks. Arrangements with regard to the renewal of such debts should be the subject of negotiation between creditor and debtor in each case.

Replacement of Capital Withdrawn

As regards the replacement of the capital that has been withdrawn, it is evident that the internal economy of Germany will continue under a condition of extreme strain until the situation of the Reichsbank has been relieved and a part at least of the circulating capital that has been suddenly withdrawn from the German economy has been replaced.

¹ Not printed.

There are two ways in which this might possibly be achieved by Germany without foreign assistance. The first is by the further sale of some of Germany's foreign assets. According to the figures in Annex IV ⁽¹⁾ these still amounted at the end of July to 8.5 milliard reichsmarks. But the short-term foreign assets of the banks have been reduced since the end of 1930 by 40 per cent., and it is to be remembered that considerable banking balances abroad are needed for the normal conduct of international trading operations. Of the other short-term assets, some are needed for current trade and others are not easily realisable. There remain about 5 milliard reichsmarks of long-term assets. Many of these assets also are not in a rapidly realisable form, and they include enterprises such as branches of German industries established in foreign countries on account of tariffs or as a means of carrying on German trade. The committee is not of opinion that a plan based upon the mobilisation of Germany's assets abroad is practicable or would assist the economic recovery of Germany.

The other possibility is for Germany to carry out a policy of acquiring foreign exchange by endeavouring drastically to reduce her imports while making every effort to maintain or even to increase her exports. The German Statistical Office estimates that it might be possible for Germany to reduce her imports in the last six months of the year to 2.5 milliard reichsmarks while exporting 4.5 milliard reichsmarks. These figures would then compare with recent years as follows:—

(In milliards of reichsmarks)

	1929	1930	First half of 1931	Estimate, Second half of 1931	Estimated total for 1931
Imports	13.6	10.6	3.8	2.5	6.3
Exports (including deliveries in kind)	13.6	12.1	4.8	4.5	9.3
Surplus of exports	—	1.5	1.0	2.0	3.0

The imports to be paid for during the second half of 1931 would be further reduced if the suggestion were carried out that Germany should purchase considerable quantities of commodities on a three years' credit. This would further ease Germany's foreign exchange situation.

But even if this possibility be disregarded, it should be observed that an export surplus of 2 milliard reichsmarks out of a total export of 4½ milliard reichsmarks involves a much greater disproportion between imports and exports than would be the case if both imports and exports were at a much higher level. It is clearly much more difficult to secure an export surplus of a given amount when prices are low and the volume of trade is small than when prices are high and the volume large. Some restriction of imports in relation to exports and a régime of stricter economy in public as well as in some forms of private expenditure will be needed in the future to enable Germany to meet her annual commitments abroad and to repay the accumulation of debts that she has contracted in recent years. But to export nearly twice as much as she imports would—even if it were practicable—involve a serious dislocation of her economic life. To maintain exports (part at all events of which could at once be made from existing stocks) in the highly competitive conditions obtaining at the present time involves the sale of goods at very low

¹ Not printed.

prices, while the reduction of imports on the scale proposed involves a low level of consumption in Germany. It is therefore a policy of continued impoverishment and high unemployment brought about by restricted credit. Clearly, also, it will accentuate the world depression by reducing the sales of other countries to Germany, and by creating intense competition from her exports in other markets. If, as is to be feared, this results in the taking by other countries of counter-measures to protect their markets, the level of trade will be still further depressed. We consider it highly undesirable in the general interest that Germany should be compelled to adopt so drastic a solution.

Long-term Credits Needed

We arrive, therefore, at the definite conclusion that it is necessary, in the general interest, as well as in that of Germany—

- (1) That the existing volume of Germany's foreign credits should be maintained; and
- (2) That part, at all events, of the capital which has been withdrawn should be replaced from foreign sources.

It is, however, obvious that if the additional capital required by Germany were supplied in the form of short-term credits, she would be faced with a still greater difficulty than at present in meeting the obligations that will become due in six months' time, when the period of prolongation of existing credits comes to an end. In these circumstances, such additional credits are unlikely to be forthcoming from private sources. Indeed, the German member of our committee did not ask that any such additional credits should be granted for fear of adding to the embarrassments of Germany.

We are, therefore, of opinion that, in order to ensure the financial stability of Germany, any additional credits provided should be in the form of a long-term loan, and that such parts of the existing short-term debt as may suitably be treated in this way should be converted into long-term obligations.

II.—'Possibilities of Converting a Portion of the Short-Term Credits into Long-Term Credits'

The second part of our reference requires us to consider the possibility of Germany raising a long-term loan.

When investors are asked to subscribe to a loan of this kind they look, among other factors, to the general economic situation of the country in question, to the balance of its trade, with a view to seeing whether it can meet the services of the loan from its own resources either immediately or within a reasonable period of time, and to the budget situation in order to satisfy themselves that the country is on a stable monetary basis.

In the case of Germany these three factors are by no means unfavourable. The London Conference recorded its opinion that the lack of confidence in Germany which caused the withdrawals that have precipitated the present crisis 'is not justified by the economic situation of the country'. The best single index which supports this view, which we share, is the rapid recovery of Germany's export trade in recent years. As regards the balance of trade, the statistics we have already given show that Germany was able to convert an import surplus into an even balance in 1929, and to create an export surplus in 1930 and the first half of 1931—though in the later stages this has involved a lowering of the standard of consumption.

As to the situation of her public finances, these have from time to time been the subject of criticism, which found expression in the Report of the Dawes Committee, and later in the reports and other communications of the Agent-General for Reparation Payments. The only comment we have to make on this subject is that the present Government has given proof of its determination in difficult circumstances to put Germany's public finances on a sound basis, and that, if this policy is rigorously pursued, it will greatly contribute to the improvement of Germany's credit.

It is, however, evident from the price at which Germany's securities are quoted on the stock exchanges of the world that, without a restoration of confidence in the financial future of Germany, to which the London Conference referred, it is impossible to raise any long-term loan on the credit of Germany alone. The funding of excessive short-term indebtedness would itself help to improve the position. But two fundamental difficulties remain which must be frankly stated. The first is the political risk involved. Until the relations between Germany and other European Powers are firmly established on a basis of sympathetic co-operation and mutual confidence and an important source of internal political difficulty for Germany thereby removed, there can be no assurance of continued and peaceful economic progress. This is the first and most fundamental condition of credit-worthiness. The second relates to the external obligations of Germany. So long as these obligations, both private and public, are such as to involve either a continuous increase in a snowball fashion of the foreign debt of Germany, or, alternatively, a disproportion between her imports and exports on such a scale as to threaten the economic prosperity of other countries, the investor is unlikely to regard the situation as stable or permanent. Until the existing or potential creditors of Germany are in a position to foresee what her future situation is likely to be in these respects a most serious obstacle exists either to the extension or even to the renewal of short-term credits, or to the raising of a long-term loan. We feel certain that the Government representatives at the London Conference, in taking the responsibility of recommending to the bankers of the world that they should take concerted measures to maintain the volume of the credits they had already extended to Germany, fully realised that their proposal was not a solution of the problem but a means of gaining time, during which steps for re-establishing the credit of Germany might be taken.

But time is short. The body of the world's commerce—whose vitality is already low—has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished; but only if the Governments of the world will realise the responsibility that rests upon them and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that, before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the *sine quâ non* of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.

We wish, however, to recall that, as we said at the outset, the German problem is part of a larger issue which deeply affects many other countries of the world. In this connexion we wish to make two observations. The first is that, in order to revive demand and thus to put an end to the continued downward movement of

prices—which is enclosing both debtor and creditor countries in a vicious circle of depression—it is essential that the normal process of investment of fresh capital should be resumed, with a well-defined economic purpose in view—namely, an increase in the purchasing power of the world.

Secondly, we would point out that the case of Germany provides the most forcible illustration of the fact that in recent years the world has been endeavouring to pursue two contradictory policies in permitting the development of an international financial system which involves the annual payment of large sums by debtor to creditor countries, while, at the same time, putting obstacles in the way of the free movement of goods. So long as these obstacles remain, such movements of capital must necessarily throw the world's financial balance out of equilibrium. Financial remedies alone will be powerless to restore the world's economic prosperity until there is a radical change in this policy of obstruction, and international commerce—on which depends the progress of civilisation—is allowed to resume its natural development.

The clearly defined and technical investigation to which we have confined our attention does not permit us to offer suggestions of a political character. But we have felt it to be our duty to point out the reasons why it is impossible for the present to suggest definite plans for securing to Germany long-term credits. We wish, however, to add that if a situation were brought about, in which the confidence of the investing public in the future economic and political stability of Germany could be restored, we are satisfied that the consolidation of a part of her short-term debt and the provision of the additional working capital needed by her trade and industry would present no serious difficulties. There are many ways in which this object could be achieved. If we refrain from putting forward detailed schemes to this end, it is only because of our conviction that action which lies outside our province must first be taken before any long-term German bonds, however well secured, can be sold.

We therefore conclude by urging most earnestly upon all Governments concerned that they lose no time in taking the necessary measures for bringing about such conditions as will allow financial operations to bring to Germany—and thereby to the world—sorely-needed assistance.

APPENDIX III

Report of the Special Advisory Committee convened under the Agreement with Germany concluded at The Hague on January 20, 1930¹

BASLE, *December 23, 1931*

PREAMBLE

The German Government having, in accordance with article 119 of the Young plan,² applied in a letter annexed to this report to the Bank for International Settlements on the 19th November, 1931, for the convocation of the Special Advisory Committee, and having declared that 'they had come to the conclusion in good faith that Germany's exchange and economic life might be seriously endangered by the transfer in part or in full of the postponable proportion of annuities', the board of the bank convened the committee in accordance with article 45³ of its statutes.

The seven ordinary members of the committee were nominated under article 127⁴ of the Young plan, as follows:—

Professor Alberto Beneduce, by the governor of the Banca d'Italia.

M. Emile Francqui, by the governor of the Banque nationale de Belgique.

Sir Walter T. Layton, C.H., C.B.E., by the governor of the Bank of England.

Dr. Carl Melchior, by the president of the Reichsbank.

Mr. Daisuke Nohara, by the governor of the Bank of Japan.

Professor Charles Rist, by the governor of the Banque de France.

Dr. Walter W. Stewart, by the governor of the Federal Reserve Bank of New York.

The ordinary members held a meeting on the 7th December at the Bank for International Settlements at which Signor Beneduce was unanimously chosen as chairman. The members availed themselves, under article 129⁵ of the Young plan, of the privilege of co-opting the following four additional members:—

Dr. R. G. Bindschedler.

Dr. H. Colijn.

Dr. Diouritch.

Mr. Oscar Rydbeck.

The full committee met for the first time at the Bank for International Settlements on the 8th December, and held plenary sessions from the 9th December to the 23rd December, and various sub-committees were set up, and their reports will be found as annexes to this report.

The committee has been supplied with an extensive documentation from official German sources, copies of which it is forwarding to the Governments concerned, and to the Bank for International Settlements for their information.

¹ See Cmd. 3763.

² See first paragraph on p. 24 of Cmd. 3343.

³ See Cmd. 3766.

⁴ See paragraph 4 on p. 24 of Cmd. 3343.

⁵ See paragraph 4 on p. 25 of Cmd. 3343.

The committee desires to express its gratitude for the very full information thus afforded, and its appreciation of the manner in which the material was compiled and presented. The committee has utilised this material, much of which is similar in content to the statistics available for other countries, as part of the basis for its work, although its conclusions have naturally been arrived at by reference to broader considerations.

The committee also wishes to express its thanks to the Bank for International Settlements for placing at its disposal the secretariat, and its high appreciation of the admirable manner in which the latter has executed difficult and exacting tasks which it has been called upon to perform.

CHAPTER I

1. *Present Situation*

The circumstances in which we have been called together are so well known that no lengthy recapitulation of events is necessary. The world depression, which started over two years ago, gradually gathered force, until it broke in the credit crisis of the summer.

Every country has been shaken by that crisis, but its effects in Germany, as well as in some other countries of Central and Eastern Europe, were devastating. Sweeping withdrawals of foreign credits led to the crippling of the German banking system, strained the reserve and credit position of the Reichsbank to the uttermost, so that, in order to protect the currency, it was necessary to impose stringent measures of exchange control, which accentuated the already serious restrictions in the volume of economic activity. The pressure upon the whole structure of Germany culminated in the emergency decree of the 8th December, 1931, which includes measures without parallel in modern legislation. The following paragraphs sketch in brief outline the situation which these developments have created in Germany to-day.

2. *Foreign Debt*

Germany was peculiarly susceptible to the credit crisis by reason of the large amount of her short-term foreign liabilities. In the first seven months of 1931 2.9 milliard reichsmarks of short-term credits were withdrawn, principally in June and July. A census taken by the German Government of the amount of foreign capital in Germany as on the 28th July shows that the total commercial debt, and in particular the amount lent on short term, was even larger than was indicated in the available figures which were submitted to the Bankers' Committee early in August last. This census indicates that the total of advances repayable by Germany at short term, outstanding at the end of July, amounted to nearly 12 milliards. But this figure of 12 milliard reichsmarks includes nearly 4 milliard reichsmarks of non-banking credits, which in all probability are not so likely to be withdrawn to the same extent as banking advances, and to a considerable extent are set off by direct counter assets. The Standstill Agreement, under which the banking creditors of Germany undertook not to call in their credits for six months as from the 1st September, applies to rather more than half of the 12 milliard reichsmarks.

The Standstill Agreement, however, permitted the repayment of certain credits, and, under these provisions, sums estimated at 1,200 million reichsmarks have been withdrawn during the period ending the 30th November.

3. Trade Balance

Some set-off for the recent withdrawals has been found in the fact that they have coincided with a growing export surplus which began at the end of 1929. The figures are as follows:—

(In millions of reichsmarks)					Surplus of—			
					Imports	Exports	Imports	Exports
Monthly average—								
1925-29	.	.	.	.	1,051	959	92	—
1930	.	.	.	.	866	1,003	—	137
January-June 1931	.	.	.	.	634	794	—	160
1931—								
July	.	.	.	.	562	827	—	265
August	.	.	.	.	454	803	—	349
September	.	.	.	.	448	835	—	387
October	.	.	.	.	483	879	—	396
November	.	.	.	.	482	749	—	267

The recent heavy export surplus is in part the result of certain abnormal factors, and it is doubtful if economic conditions will permit it to continue at the same high level. Exports have been maintained, partly because the need for cash has put pressure on manufacturers to sell off stocks, in many cases at a loss, while some exceptional sales have been made to Great Britain in anticipation of tariffs. Imports have been reduced, because unemployment, lower wages and high taxation have reduced the consuming power of the country, and, therefore, the demand for imports of consumable commodities. The general reduction of industrial activity has curtailed the demand for imports of raw and semi-finished material, and in any case the sharp reversal in the flow of foreign credit handicaps purchases abroad. The surplus has, moreover, been increased by the fact that, up to now, the world price level of the type of goods imported into Germany, viz., raw materials, food-stuffs, &c., has fallen much more than that of the type of goods exported by Germany, viz., finished products.

But it is impossible to disregard the existence of powerful general factors adverse to the continuance of this favourable development. Tariffs, exchange control measures in other countries, import restrictions and contingents, together with the enhanced competition Germany is likely to meet through the depreciation of sterling and other currencies, all tend to hamper German exports; on the import side, it will be necessary for Germany to replenish her stocks of raw materials, and to purchase food from abroad.

In any case the surplus represented by the above figures has not become immediately available to Germany in the form of foreign exchange which can be utilised to repay debts. In view of the prevailing lack of confidence there has been an increasing tendency to call upon Germany to pay cash for her imports, while she has had to give extended credits for her exports. In particular, German exports to Russia, which are running at about 80 million reichsmarks a month, on the average of the last four months, have been made on very long credit terms. On the other hand, even exporters have been able, in spite of the legal restrictions, to keep abroad part of the foreign exchange resulting from exports.

4. The Balance of Payments

Taking the year as a whole, the extent of the exodus of capital which Germany has to meet by means of her export surplus (disregarding the qualification

explained in the preceding paragraph), together with such other resources as have been available to her, is indicated by the following rough balance sheet for the year 1931.

(In millions of reichsmarks)

Export surplus for year (estimated—including services and deliveries in kind)	3,000	Reparation payments up to June 30	800
Utilisation of foreign assets of German banks	1,300	Interest and normal amortisation on Germany's foreign liabilities (estimated)	1,500
Rediscount and other credits (including that from central banks and the Bank for International Settlements)	1,200	Balance representing capital withdrawn	4,900
Drawn from gold, &c., reserve of the Reichsbank	1,700		
	<u>7,200</u>		<u>7,200</u>

An examination of the above table, which can obviously be only an estimate, as will be seen from the report of the sub-committee, shows how great a part of Germany's income from the surplus of exports has been absorbed by the amounts required for the interest and normal amortisation of her foreign liabilities, and for reparation payments before the Hoover plan. The withdrawal of capital, besides exercising considerable pressure on the balance of trade, as already described, forced Germany to have recourse, not only to the reserves held against their foreign liabilities by the German private banks, but also to increase such credits as were commercially available by the rediscount credits granted to the Reichsbank and Golddiskontbank. This did not obviate heavy sales of gold, and the striking feature of this balance sheet is the drain which the withdrawal of capital has placed upon the reserve of the Reichsbank, which has profoundly influenced the policy of the latter.

5. *The Reichsbank*

The Reichsbank reserve, which stood at 2,685 million reichsmarks at the end of 1930, and even at 2,576 million reichsmarks at the beginning of June 1931, had fallen to 1,610 million reichsmarks on the 31st July, 1931. Of this last amount, however, it owed at short term 630 million reichsmarks in respect of the rediscount credits granted to it by the Bank for International Settlements and the central banks and to the Golddiskontbank by an American banking consortium. In order to ensure that the necessary foreign exchange should be available to meet the service of Germany's long-term debt, for such repayment of short-term credits as is permissible under the Standstill arrangements, and for the imports necessary to Germany, the Reichsbank has been forced to take or recommend a series of measures of increasing stringency, in order to limit to the greatest possible extent the other calls for foreign exchange which might be made upon it. Nevertheless, the reserve has fallen still further, until on the 15th December it was no more than 1,161 million reichsmarks, of which 630 million reichsmarks represent the amounts due under the rediscount credits referred to above.

The percentage cover for the note issue has thus fallen to 25·6 per cent., or, if the 630 million reichsmarks be excluded, to 11·7 per cent. The note circulation itself amounts to approximately 4·6 milliard reichsmarks, which compares with a figure of 4·3 milliard reichsmarks a year ago. In view of the reduction of business

activity in the last year, as well as of certain measures taken to economise the use of currency, the present note circulation is high; this may be attributed to a decrease in the velocity of circulation and to a certain tendency on the part of the public to hoard notes.

An important change in the situation is revealed by an examination of the volume of bills now held by the Reichsbank and the private banks respectively. Before the crisis, the proportion of gold and foreign exchange to the total note issue fluctuated around 60 per cent., *e.g.*, on the 30th April, 1931, the Reichsbank held gold and exchange reserves of 2,526 million reichsmarks, and domestic bills of 1,520 million reichsmarks, against a total note issue of 4,340 million reichsmarks, *i.e.*, 58 per cent. of the note issue was covered by gold and foreign exchange. At the same date, the credit banks held nearly 2,900 million reichsmarks of domestic bills, representing an immediately liquid asset which the credit banks held as a reserve against their deposit liabilities.

The heavy withdrawal of deposits from the credit banks during the crisis, whether by external or internal creditors, induced the banks to seek assistance from the Reichsbank, by discounting such material as they had available, and in addition creating (to some extent with the assistance of the Acceptance and Guarantee Bank) further material for discounting with the Reichsbank. The latter has thus to a considerable degree extended its own credit in substitution for the deposits and other credits which have been withdrawn from the credit banks as well as from the savings banks. As a result, the domestic bill holding of the Reichsbank on the 15th December amounted to 4,213 million reichsmarks (including 542 million reichsmarks of bills set aside against credits granted to the Reichsbank as referred to above), while that of the credit banks on the 31st October (the last available date) has fallen to 1,792 million reichsmarks. In these circumstances, we hesitate to express an opinion on the advisability of the recent reduction in the Reichsbank rate.

6. Production and Employment

In order as far as possible to protect the external position—the reichsmark exchange and the export market—Germany has pursued a deliberate policy of stringent and sharp reduction of the level of wages and prices. The index figure of wholesale prices fell from 140 in November 1928 to 106 in November 1931, and prices are further to be reduced under the emergency decree of the 8th December, while wages are reduced under that decree to approximately the level prevailing at the beginning of 1927.

Taking 1928 as 100, the index of industrial production rose to 101 in 1929, fell to 86 in 1930, and for September 1931 (the latest figure available) it had fallen to 66—in other words, one-third of the industrial life of Germany has stopped.

This gradual atrophy of industrial and commercial activity has further increased unemployment, which was already high before the crisis. The figure of unemployed (excluding part-time workers) on the 1st December, 1931, had reached a level of 5 millions out of approximately 21 million employed persons.

The crisis has also seriously affected German agriculture, which in 1925 employed about 30 per cent. of the working population of Germany. Having contracted debts at high rates of interest when prices were high, it now finds it difficult, if not impossible, to earn sufficient to meet the interest on these debts, and measures of protection and financial relief, amounting almost to a moratorium, have been taken in order to prevent a general collapse.

Ever since the inflation period the demand for capital in Germany in relation to the supply from domestic sources has kept interest rates above those prevailing in other countries. During 1930 advances to manufacturers of first-class standing seldom cost less than 8 per cent.; in recent months the cost has been about 50 per cent. higher, *i.e.*, the rates have risen to about 12 per cent. This burden naturally imposes a heavy strain on German industry, and is one of the causes of the present decline in industrial activity.

7. The Budget

The decline of economic activity, the fall of profits resulting from the fall in prices, and the lower yield of the tax on wages, due to increased unemployment and lower wage rates, have seriously reduced the yield of taxation. This fall (taken in conjunction with the cost of maintaining the growing army of the unemployed) has produced a critical situation in the public finances of Germany. In the five years preceding the depression, the revenue and expenditure both of the Reich, the Federal States and the communes showed a rapid increase. Owing to the system of taxation under which the latter received a proportion of the taxation collected by the Reich, the situation can best be shown by combining the budgets of all the authorities concerned. The figures are shown in the following table, which also gives the total gross expenditure of all these authorities, including expenditure covered by receipts from State property—from loans, and from other sources:—

(In millions of reichsmarks)

	<i>Taxes¹ raised and retained by the Reich (i.e., excluding the tax transfers to the States)</i>	<i>Taxes raised by States and Com- munes, including the tax transfers from the Reich</i>	<i>Expenditure of Reich</i>	<i>Expenditure of other authorities</i>
1926-27 . . .	5,312	6,363	6,561	10,639
1927-28 . . .	6,357	7,189	7,154	11,647
1928-29 . . .	6,568	7,730	8,375	12,426
1929-30 . . .	6,686	7,593	7,987	12,836
1930-31 . . .	6,634	7,482	8,193	12,770

¹ Including the contribution of the railway company.

The expenditure of the Reich includes an item for reparations which rose from 1.3 milliard reichsmarks in the year 1926-27 to 1.8 milliard reichsmarks in the year 1930-31, *i.e.*, about 12½ per cent. of the total tax revenue of the Reich, the States and the communes.

The revenue receipts for 1930-31 fell considerably short of the original estimates. The position in 1931-32, in which the revenue was expected to equal that actually received in the preceding year, has rapidly deteriorated. Fresh estimates made in September 1931 showed an estimated fall in the total receipts from taxes collected by the Reich (including amounts subsequently transferred) of not less than 1 milliard reichsmarks. It is further estimated that the yield of taxes collected by the Reich at the rates in force prior to the recent decree will show a further fall next year of 1 milliard reichsmarks and amount to not more than 7½ milliard reichsmarks, as compared with receipts of 9½ milliards in 1929-30. This fall of 2 milliard reichsmarks is after taking credit for a series of measures imposing taxation during

the preceding two years, amounting to $1\frac{1}{2}$ milliard reichsmarks. Had the rates of taxation not been increased, therefore, the revenue would have fallen off in the last two years by some $3\frac{1}{2}$ milliard reichsmarks, or about 40 per cent. It is estimated that the present decree will raise the revenue to approximately the same level as in the present year, *i.e.*, about 8 milliard reichsmarks.

Apart from the increase in taxation referred to above, attempts are being made to meet the falling off in revenue by sweeping reductions in expenditure. So far as the Reich is concerned, expenditure on all objects other than service of the debt, transfers to the Federal States, external war burdens, and emergency unemployment relief, has been reduced, from 1929 to 1932, from 4,780 million reichsmarks to 3,720 million reichsmarks, *i.e.*, a reduction of 1,060 million reichsmarks, or 22 per cent.

Measures similar in character have been taken by the Federal States and by the communes. The latter were empowered about a year ago to increase taxation and they were asked to reduce expenditure, and in any cases where these powers have not been exercised the competent higher authority may step in to see that the necessary measures are taken. Part of the economies effected have, however, been offset by the increased cost of unemployment relief due to the growth of unemployment in the last two years. It has been possible to effect considerable economies in this sphere by reducing the average monthly benefit paid to the unemployed, which, from a former average of 80.93 reichsmarks, has fallen to 63.86 reichsmarks in 1931. Expenditure under the emergency relief system, which averaged 71 reichsmarks a month, has dropped to 60.75 reichsmarks, while welfare relief payable by the communes—varying according to the locality—may be estimated probably in the neighbourhood of 50 reichsmarks monthly.

It is, however, an advantage from the purely budgetary point of view that the internal debt and the annual charge which it involves are comparatively very low as the result of the inflation prior to 1924, which wiped out the greater part of the previously existing debt. On the other hand, the German Government in the sketch estimate for 1932 has included a considerable sum for the amortisation of its short-term debt incurred to meet the deficit of previous years. This provision has been made by Germany in view of the fact that the shortage of credit is such that the Government is practically unable at present to rely on borrowing in the money market in order to meet its maturing short-term obligations.

In view of the measures taken in the four decrees, relating to taxation and expenditure, issued in the last two years, and in particular in that of the 8th December, 1931, the committee is of opinion that the burden of taxation has become so high that there is no margin for a further increase.

8. *German Railway*

The growing stagnation in German business activity has naturally been reflected in the gross receipts of the German Railway Company, which fell in 1930 by 14.6 per cent. compared with 1929. Although energetic measures of economy were taken to meet this loss of income, the surplus of receipts over operating expenses fell from 860 million reichsmarks to 480 million reichsmarks, *i.e.*, 180 million reichsmarks short of the amount necessary to cover the reparation liability. A further fall has taken place in 1931, the receipts of which are 28 per cent. below those of 1929, and it is estimated that the surplus of receipts over operating

expenses will amount to only 178 million reichsmarks. In these circumstances, the railway in 1931 will not be able, even after drawing upon its reserves, to cover out of earnings the liabilities incumbent upon it in respect of reparation and debt charges, though the cash position is met by the financial arrangements made between the German Government, the railway and the Bank for International Settlements in connexion with the Hoover plan. It is impossible to estimate what will be the operating results of the year 1932. Nevertheless, the sub-committee, who were asked to report upon the position of the German Railway Company, came to the conclusion that, once Germany and the world at large had recovered their balance and returned to something like the economic conditions which we are accustomed to regard as normal, the railway company (fundamentally a sound undertaking) will be able in future years, if managed on a commercial basis, to yield a net operating surplus comparable with that earned by other big foreign railway systems.

CHAPTER II

Circumstances and Conditions which have led to the Present Situation

The circumstances and conditions which have led to the situation we have been describing are partly international and partly peculiar to Germany.

1. *Course of the Crisis*

Like all other countries, Germany has suffered from the consequences of the extreme fall of prices which is the characteristic trait of international economic life since the end of 1929. The fall of about 30 per cent. of wholesale prices in the world as a whole far exceeds in magnitude the fall in prices that has taken place in any period of depression in the last 100 years. It is impossible to say if this fall is permanent or if it will be followed, after the acute depression has passed away, by a substantial rise. What is certain is that it has deeply affected all economic activity and that no effort to maintain prices—by whatever means it may have been attempted—has hitherto attained any success.

The sharp reduction of purchasing power of large masses of consumers has involved in the last two years the reduction or complete disappearance of industrial profits, serious unemployment and an uninterrupted slump in Stock Exchange securities. It has threatened in consequence the status of a large number of banks; this banking crisis in its turn has provoked a general lack of confidence and involved a withdrawal of foreign capital from countries which hitherto have had the use of it, and, in particular, from Central Europe. It has only been possible to maintain the exchange value of the currencies of some of these countries on a nominal basis by a system of decrees regulating the exchange market and by the suspension of a part of their foreign payments.

This situation has naturally aggravated the 'crise de confiance' in the lending countries themselves. The abandonment of the gold standard by certain of them has created a fresh source of disturbance in international trading relations, and given rise to the universal tendency to hoard which, if it were to continue, would bring to a standstill the whole system of credit.

Finally, to this monetary crisis is now being added a tariff crisis, each country seeking to defend its diminished production against foreign imports by a fresh increase in import duties and other forms of trade restrictions, which in turn result in the still further shrinkage of international trade.

We cannot here attempt to examine all the underlying causes of this profound disturbance to the economic life of the world, but certain of its aspects are intimately linked with the problem with which we are directly concerned.

Among these factors, the Banking Committee which met in Basle in August called attention to the fact that 'in recent years the world has been endeavouring to pursue two contradictory policies, in permitting the development of an international financial system which involves the annual payment of large sums by debtor to creditor countries, while at the same time putting obstacles in the way of the free movement of goods', and that the case of Germany provides a most forcible illustration of this dilemma. So long as the payments to be made were offset by loans to the debtor country this dilemma did not arise, but as soon as such capital movements ceased, as happened in the autumn of 1929, it becomes evident that in the long run, as the Dawes Committee clearly pointed out, these payments can only be made in the form of goods. The change from a period of excessive expansion of foreign lending by certain creditor countries followed by an abrupt cessation of such lending constitutes one of the chief points of contrast between the period 1924-29 and 1930-31, and has been one of the principal features in the credit situation of recent times. If barriers are imposed to the free movement of goods, the world cannot readily adapt itself quickly to important changes in the course of credit and trade. Attempts to maintain the international balance of payments by means of larger and abnormal movements of gold has weakened the monetary foundations of many countries. In fact, when the withdrawal of large sums of capital took place the gold reserves of the countries concerned proved quite inadequate to stand the strain. This led in some countries to the strict control of foreign payments and in others to the suspension of the gold standard.

2. Capital and Commercial Debt of Germany

Germany's demand for capital to fill the gap left by the war, the aftermath and the inflation was very great. As a matter of fact, the influx of foreign capital which began as soon as the mark was stabilised and which was estimated by the Bankers' Committee to be about 18 milliard reichsmarks has been partly offset by the 10.5 milliard reichsmarks of reparation payments.

But in any case, between 1925 and 1930 Germany has invested a very large amount of capital in both private and public enterprises. She has, for example, reconstructed her merchant fleet, she has modernised and rationalised many of her industries and her towns have carried through large programmes for public purposes. The figures furnished to us by the German delegation show for the period 1924-29 the investment of a sum amounting to 32,845 million reichsmarks, of which 22,428 million reichsmarks represent investments by public authorities, for public utilities, housing (other than houses financed purely by private means), roads, canals, &c.

These sums have, of course, been forthcoming partly from Germany's own savings, which reached very high figures in the course of recent years. But the foreign holding of so large a proportion of her capital wealth makes her peculiarly vulnerable to financial disturbance, particularly to the extent that this capital is withdrawable at short notice. Moreover, a substantial part of these short-term credits has proved to be immobilised in long-term investments. The withdrawal of these credits must therefore threaten not only the exchange but also the liquidity of the banks themselves.

3. *Growth of the German Budget*

Turning to Germany's budgetary situation, the rapid development of Germany's economic activity in recent years has been paralleled by an increase of Government expenditure. The continued increase of expenditure from 1925 to 1930 has absorbed as fast as it came into being the growing taxable capacity of Germany. In spite of a rapid increase in normal receipts, which increased between 1926-27 and 1929-30 from 14,719 to 18,054 million reichsmarks, the increase of expenses has been equally rapid. Indeed, they have risen from 17,200 to 20,823 million reichsmarks and have resulted in an increase of debt. Among the expenditure items, outgoings for buildings, education and social charges (chiefly due to increasing unemployment) have continuously increased and now represent 43 per cent. of the total expenditure, and amount in 1929-30 to 8,897 million reichsmarks.

While expenditure thus increased, the debt grew in a disquieting fashion. When stabilisation took place, inflation had reduced the public debt to a very small amount. On the other hand, by 1931 this debt reached more than 24 milliard reichsmarks, of which 8.4 milliard reichsmarks were for public undertakings (water, gas, electricity, transport, roads), for the building of houses and for various public works (hospitals, sanatoria, &c.). In particular, from 1928 to 1931—in three years—the debts of the States and communes increased from 7.5 to 12.7 milliard reichsmarks.

When the crisis came with the inevitable reduction of private incomes and budgetary receipts which it naturally involved, the fact that expenditure had been so high meant that the deficit was correspondingly large.

This policy of growing expenditure, as also the system of financial relations which exist between the Reich, the States and the communes have often been the subject of criticism. The Reich levies taxation of which it retains part only, and of which a proportion fixed by law is automatically handed over to the States and communes, which only cover their expenditure from their own resources to the extent of 75 per cent. Such a system means that the control of expenditure is divorced from the responsibility of raising the revenue to meet it, and although the system may have been moderated by recent ordinances of the Reich, we think that reform in this matter would have beneficial results.

In concluding this analysis of the circumstances and conditions which have given rise to the present budgetary position of Germany, the following observation should be made:—

Notwithstanding the exceptional character of the present crisis, there is no instance in economic history of a crisis, no matter how great, which was not followed by periods of stability or prosperity. Just as it would be wrong to forecast a country's economic future on the basis of a period of prosperity, so it would be unjustifiable to judge its chances for the future on the basis of a period of depression.

At the present time the budgets of all countries and of almost all privately or publicly owned railways show a deficit. In every country efforts are being made to restore the equilibrium of these budgets by cutting down expenditure and by adjusting receipts to changed conditions. To assume that in the present case equilibrium will not be regained would be a counsel of despair.

What is true of the budgets and railways of other countries is obviously equally true of Germany. In past years Germany has built up an immense and powerful economic equipment, capable of yielding a great return. The restriction of markets and the fall of prices have prevented her from utilising this equipment to the full.

The activity of her factories is now necessarily reduced, but, although it is impossible to fix a date for the recovery of stability, which is still threatened to-day, it is none the less certain that this stability will ultimately be restored with the help of the measures suggested in chapter IV.

In the course of our investigations we were able to ascertain from the figures submitted to us that, as regards both the railways and the budget, receipts are no less elastic in the case of Germany than elsewhere.

On the other hand, it would be rash, both in the case of Germany and in the case of other countries, to presume to indicate the precise moment at which this exceptional and unfortunate period through which we are now passing will come to an end.

CHAPTER III

Special Measures taken by Germany to meet the Crisis

In the course of its deliberations the committee had the opportunity of receiving a synopsis of the special measures taken by the German Government by form of emergency decrees as from July 1930 in order to meet the increasing difficulties of the situation.

The primary object of the German Government was to secure the stability of the currency and, in general, the functioning of the German economy within the frame of the world economy. To this end they devoted all their efforts in securing the balance of the budget, not only in the Reich, but also in the States and communes. Direct taxation was augmented by two increases in the income tax; indirect by the imposition of further heavy duties on beer and tobacco, while finally the turnover tax has lately been increased from 0.85 per cent. to 2 per cent. Sweeping economies have been effected in the expenditure of the Reich; a series of cuts in the salaries of all public servants, reducing them by over 20 per cent., has been made in the last eighteen months, so that salaries will be now on a lower level than at the beginning of 1927.

Similar measures have been taken with regard to the budgets of the Federal States and the communes. The latter have been authorised and, in certain cases, compelled to levy new and additional taxation in the form of a poll tax, a local beer duty and a tax on beverages. The reductions in salaries apply also to officials employed by these bodies.

Contributions under the unemployment insurance scheme have been raised to 6½ per cent. of wages, while considerable reductions in the scope and scale of the benefits paid by the Insurance Institute have been made.

A further main point in the programme of the Government was the reduction of prices and wages. Prices were generally reduced by 10 per cent. Rents are being reduced to a similar percentage. Even the rates of interest on long-term obligations must be reduced by about 25 per cent. In the sphere of wages a general reduction to approximately the level prevailing at the beginning of 1927 has to take place.

The magnitude of the crisis forced the Government to emergency measures in the field of credit policy. Such measures have been taken for supporting a series of banking institutions and for strengthening the position of the money market. A system of general control of the banks has been set up, with a commissioner responsible to a board, including representatives of the Reichsbank and of the competent Government authorities. New regulations have been made for the

carrying on of the business of the savings banks and allied institutions, in particular limiting the extent to which they may finance the municipalities in future. For the time being they are not allowed to grant them new credits. The law governing public companies has been revised and the provisions regarding the responsibility of directors sharpened, while new regulations are made regarding the auditing of accounts.

Transactions in foreign exchange have been centralised in the Reichsbank with a view to limiting the purposes for which foreign exchange may be acquired, and all purchases of foreign exchange require prior authorisation. All persons becoming possessed of foreign exchange, whether by exports or otherwise, are compelled to offer their holdings to the Reichsbank. It is no longer possible to remit abroad the proceeds of sales of securities on behalf of foreigners. Stringent provisions seek to limit the flight of capital. All the above-mentioned prescriptions are secured by heavy penalties (fines and prison). Repayment of foreign credits is regulated by the Standstill Agreement, or, if not covered by this agreement, under decree.

Finally, in order to prevent a widespread collapse of agricultural credit, measures amounting practically to a moratorium for agricultural debts have been taken, chiefly for the eastern parts of Germany. Farmers suffering from special difficulties are allowed to appeal for protection against foreclosure or distraint on condition that they carry on their business under the supervision of trustees, pending approval of a scheme for relieving them of the immediate burden of their debts. Such schemes may provide for reduction of interest rates, and the diminution of the capital debt, in certain cases even without the consent of the creditors.

The question how far the measures described above will be successful cannot be answered at the present moment. But the committee considers that the steps taken to defend and to maintain the stability of the currency and the budget show, in their opinion, a resolute desire on the part of the German Government to meet the situation.

CHAPTER IV

Conclusions

It is evident from the facts outlined in the preceding chapters that Germany would be justified in declaring—in accordance with her rights under the Young plan—that in spite of the steps she has taken to maintain the stability of her currency she will not be able in the year beginning in July next to transfer the conditional part of the annuity.

The committee, however, would not feel that it had fully accomplished its task and justified the confidence placed in it if it did not draw the attention of the Governments to the unprecedented gravity of the crisis, the magnitude of which undoubtedly exceeds the 'relatively short depression' envisaged in the Young plan—to meet which the 'measures of safeguard' contained therein were designed.

The Young plan, with its rising series of annuities, contemplated a steady expansion in world trade, not merely in volume but in value, in which the annuities payable by Germany would become a factor of diminishing importance. In fact the opposite has been the case. Since the Young plan came into effect, not only has the trade of the world shrunk in volume, but the very exceptional fall in gold prices that has occurred in the last two years has itself added greatly to the real burden, not only of German annuities but of all payments fixed in gold.

In the circumstances the German problem—which is largely responsible for

the growing financial paralysis of the world—calls for concerted action which the Governments alone can take.

But the problem has assumed a world-wide range. We can recall no previous parallel in time of peace to the dislocation that is taking place and may well involve a profound change in the economic relations of nations to one another. Action is most urgently needed in a much wider field than that of Germany alone.

The economic interdependence of the various countries of the world to-day needs no further proof; recent years have most strikingly illustrated it.

Since July last, for example, it has been evident that, if the crisis by which Germany has been overwhelmed were not remedied, it would spread to the rest of Europe, destroy the credit system so painstakingly built up and create profound repercussions in other parts of the world.

The committee appointed by the Bank for International Settlements, on the invitation of the London Conference, after describing this situation in its report of the 18th August, 1931, sounded a most emphatic note of warning, urging that if disasters were to be avoided before the period of postponement of credits recommended by that conference expires on the 29th February, 1932, immediate steps must be taken by the Governments.

But events did not wait. The year 1931 has not yet ended and already the crisis has taken formidable dimensions, shattering the exchanges of many countries one after the other and accumulating difficulties which, if not dealt with, will only prove forerunners of further catastrophes. Unemployment has increased; stock exchanges remain closed; economic activity continues with difficulty at a very low ebb in the face of restricted credit, rigid control of the exchanges and paralysing restrictions on international trade. Slowly the effects of shrinking economic activity are making themselves felt in one country after another.

This state of things is complicated by the repercussion of economic affairs on the political situation and *vice-versâ*. The economic decline which has taken place in the last two years, the increasing distress which it has brought in its train, have produced a general political instability from which an anxious world is suffering more and more. Similarly, political considerations have often been allowed to influence the treatment of economic problems by the Governments, thus preventing the latter from viewing these problems in their true light and from dealing with them on their merits.

When Governments come to examine the whole group of questions allied to the subject of the present report, they will have to take account of many matters relevant to these complex problems—which can only be solved in conformity with economic realities.

In this connexion, certain considerations seem to us of great importance.

The first is that transfers from one country to another on a scale so large as to upset the balance of payments can only accentuate the present chaos.

It should also be borne in mind that the release of a debtor country from a burden of payments which it is unable to bear may merely have the effect of transferring that burden to a creditor country which, in its character as a debtor, it, in its turn, may be unable to bear.

Again, the adjustment of all inter-governmental debts (reparations and other war debts) to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace.

Finally, although the German Government is energetically defending the stability of its currency, steps are necessary to secure that these measures shall have a permanent effect.

The European Governments during recent years have made great efforts towards re-establishing the stability of currencies after the disasters of the war and post-war inflation. The destruction of this work would mean an extremely disquieting setback, which would be heavy with consequences. The maintenance of the stability of the German currency, as of the currency of any debtor nation, may be placed in the greatest peril if the confidence of investors is lost.

We appeal to the Governments on whom the responsibility for action rests to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike.

This report has been written in the English, French, German and Italian languages.

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BASLE, *December 23, 1931*

Annex I

[*Not printed. This Annex contained a translation of the text of a memorandum and covering letter from the Finance Minister of the Reich to the President of the Bank for International Settlements, Basle. A translation of the memorandum is printed above as No. 299*]

Annex II

Report of the Sub-Committee on Statistics regarding Interest and Amortisation of German Foreign Indebtedness

[*Not printed*]

Annex III

Report of the Sub-Committee regarding German Assets Abroad

[*Not printed*]

Annex IV

Report of the Sub-Committee on the German Budget

The sub-committee was appointed to consider, with the assistance of the German experts, the situation of the German budget. The sub-committee, while devoting its attention primarily to the present state of the budget, has not failed to consider the broad lines of the development of the budget in the past, in order to be in a position to understand the causes which have led to the present serious financial difficulties of the German Reich.

In particular, the sub-committee has considered the development of the total

expenditure not only of the Reich, but also of the Federal States and Municipalities, and has paid special attention to the expenditure of these bodies on housing, education and social welfare.

Total Expenditure of Public Authorities in Germany

In dealing with the development of the total expenditure of German public authorities, the sub-committee was unable to take its enquiries up to the year 1931, since exact figures are not yet available for the expenditure of the communes in 1931. The sub-committee noted that the total gross expenditure of German public bodies increased between the financial years 1926 and 1930 from approximately 17,200 million reichsmarks to approximately 20,963 million reichsmarks, an increase of 3,763 millions. This increase was not spread equally over the intervening years, but was particularly sharp in the year 1928. This was due to the increase of salaries granted to public servants by the law regarding salaries of 1927, which the German experts estimated led to a total annual increase of 1,500 million reichsmarks. It was pointed out that since 1925 there had been a steady increase in the level of wages in Germany from the low point at which they stood after the inflation. No corresponding increase of salaries had taken place, and therefore in 1927 the German Government felt itself obliged to adjust salaries to wages, with the result that, generally speaking, the lower classes of officials had their real income restored to approximately the 1913 level, while the higher classes (with certain exceptions) remained well below that level. Now, however, as a result of recent emergency decrees, the increase of salaries made in 1927 has been more than cancelled, and salaries will now be on a lower level than they were before the increase.

The remaining principal causes of the increase of 3,700 million reichsmarks are to be found under the heads of 'Education', 'Social Welfare', 'External War Burdens' and 'Trade and Commerce'. The increase in expenditure on 'Education' is principally—though not entirely—due to the higher level of salaries; that in 'Social Welfare' to expenditure of unemployment relief, while the increase in expenditure of 'Trade and Commerce' represents the assistance which the German Government has found itself forced to give to agriculture, communications and industry. These items must necessarily be enhanced by the development of the crisis and will show a further increase in the current year.

No explanation is needed of the increase in external war burdens.

Thus the following items account roughly for the total increase of 3,700 million reichsmarks:—

	<i>Million reichsmarks</i>
Increased expenditure on salaries since 1927	1,500
Increased expenditure on unemployment	1,000
Increased expenditure on external war burdens	500
Miscellaneous	700

The sub-committee wishes to draw attention to the fact that of this increase of expenditure of 3,700 million reichsmarks, an amount of 1,600 million reichsmarks is for account of the Reich and 2,100 million reichsmarks for account of the States and communes.

In connexion with the revenue side of the budget, the sub-committee observes that during the years 1926–27 to 1928–29, years of industrial and commercial

prosperity, the fiscal revenues developed from 11,675 to 14,298 million reichsmarks, showing a total increase of about 2,600 million reichsmarks.

This development during the period of expansion was followed by a drop since 1929-30, which would have been almost as rapid, except for the fact that tax increases almost equalling previous reductions were on several occasions introduced.

The Relation between Reich and Local Authorities

The sub-committee nevertheless felt that some part at least of the increase in the total expenditure of public authorities in Germany had arisen from the fact that the financial relations between the Reich, the Federal States and the communes permitted the latter, in particular, to embark upon additional activities which were paid from out of the share of taxes levied by the Reich but transferred on a percentage basis to the States and communes. As the yield of these taxes rose in times of prosperity, money flowed into the coffers of the communes, and part of their present difficulty is due to the fact that their receipts from these sources have now fallen off, while their expenditure cannot be easily or quickly reduced to correspond. The amount of taxes transferred by the Reich in this way to other public authorities rose from 2,620 million reichsmarks in 1926 to a maximum of 3,412 million reichsmarks in 1928, and subsequently declined to 3,050 million reichsmarks in 1930 and to 2,321 million reichsmarks in 1931. This has forced the communes to radical measures of economy, but even these have not proved wholly sufficient, and some recourse to the funds of the Central Government has been necessary during 1931. An improvement has, however, been effected by the recent emergency decrees of the German Government, under which the municipalities have the power, and in certain circumstances the obligation, to levy additional taxes for themselves. These include a poll tax, a local beer tax and a tax on beverages, the unpopularity of which acts as a powerful further stimulant upon the municipal authorities to effect economies in their budgets.

Education

As regards expenditure on education, which rose from 2,167 million reichsmarks (net) in 1926-27 to 2,733 million reichsmarks (net) in 1930-31, the sub-committee took note of the fact that the increase was principally due to the increase in the level of salaries of school-teachers, &c. It was nevertheless pointed out that expenditure per head on education was considerably above the level of certain countries in Western Europe, although practically equivalent to that in other countries.

The sub-committee was, however, informed that expenditure on education in Germany will show a considerable decrease in the current year, as a result of the lowering of salaries and other measures taken by the German authorities.

Housing

As regards expenditure on housing, which rose from 861 million reichsmarks (net) in 1926-27 to 918 million reichsmarks (net) in 1930-31, the sub-committee received an explanation of the system by which funds for housing are provided in Germany from public moneys. The principal source is the tax on house rents, which was created in 1924 after the inflation, during which house property had retained the greater part of its value while investments expressed in money had been largely rendered worthless.

This tax was devoted partly to the general financial needs of the Federal States and the communes and partly to filling up the existing housing shortage. Since different arrangements were made in the various States for carrying out this scheme, no brief statement can be made of the allocation of the tax on house rents, but, roughly speaking, 50 per cent. was devoted to housing purposes.

The authorities responsible were in most cases the communes, who have frequently acted through public utility companies, of which they themselves may be the owners. Generally, mortgages are only granted out of funds arising from the house-rents tax, when cover for the total sum required to carry out the building is assured. That is to say, the funds provided by the owner of the building himself and supplemented by a mortgage from a building society are completed by a mortgage granted from the proceeds of the house-rents tax. Strict provisions are laid down as to the type of house which may be built with such funds and as to the retention of a charge on the site until the mortgage is paid off.

The document circulated by the German delegation on 'German Housing during the Post-War Period' gives in considerable detail the extent of building activity, the method of financing and the amount of public funds involved in such financing. The sub-committee noted that the greater part of the money spent on housing has been raised by taxation. A certain amount of the money spent on housing has, however, been raised by loans and the document referred to showed that this amounts to approximately 25 per cent. of the amount spent by public authorities in the year 1928. This proportion is stated to have been generally applicable, so that it appears that the outstanding liability of public bodies in respect of housing may for the years 1926-27 to 1930-31 be in the neighbourhood of 2,000 million reichsmarks. Out of the total of 306,000 houses erected in the calendar year 1930, 240,000 have been erected with some sort of assistance from public funds.

Development of Public Debt

In this connexion, the German member of the sub-committee supplied the following table, showing the development in the last three years of the total debt of all public authorities in the Reich:—

		(000,000's omitted)			Total
			Federal States including Hansa towns	Communes and Associations of Communes	Public Administra- tion
Total at—	Reich				
March 31, 1928	. . .	7,130·7	1,693·2	5,774·7	14,598·6
March 31, 1929	. . .	8,228·5	2,201·4	7,729·3	18,159·2
March 31, 1930	. . .	9,629·6	2,590·2	9,098·7	21,318·5
March 31, 1931	. . .	11,342·2	2,802·5	9,934·2	24,078·9

The increase in the public debt has been less marked in each year since 1928. (Net increase in the three years: 3·6, 3·2, and 2·8 milliard reichsmarks.) The credit requirements accumulated after the currency stabilisation were gradually satisfied and certain tasks with high capital requirements devolving upon the public authorities (*e.g.*, construction of dwelling houses) were to some extent accomplished. On the other hand, the ever-growing tension on the credit market since the end of 1929 prevented an expansion of the debt.

Of the total increase of 9·48 milliard reichsmarks in the years 1928 to 1931, more than 2 milliard reichsmarks were in respect of claims in the debt register for war damages and Polish indemnities and of reparation loans of the Reich

(two-thirds of Young Loan), which entailed a burden for interest and amortisation, but brought no new capital which could be employed.

	<i>Milliard reichsmarks</i>
On the 31st March, 1931, the debt total was accordingly . . .	24.1
Including the following items:—	
Old debts and debts incurred or authorised prior to the 1st April, 1924	6.0
Thus leaving a new debt of approximately	18.0
Including the following items:—	
Dawes and Young Loans, claims in the Debt Register in virtue of the Final War Damage Law and the decree on damage incurred in Poland, &c.	3.4
Supply of water, gas and electricity and transport under- takings	2.8
Construction of dwelling houses	2.5
Construction of roads and waterways	2.5
Productive unemployment relief, construction of hospitals, sanatoriums, &c.	1.6

The sub-committee notes that out of the total increase of debts in the amount of 9.48 milliards, 4.16 milliards were contracted by the municipalities from the end of 1928 down to the end of March 1931.

The Budgets for 1931 and 1932

Apart from discussing the points mentioned above, the sub-committee saw little advantage in enquiring at any length into the details of the German budget prior to the year 1930. Not only are these details fully analysed in the reports of the Agent-General for Reparation Payments which are familiar to the world, but also the estimates appearing in the German budget are now framed, owing to the crisis and owing to the measures taken by the German Government, under quite different conditions. The figures supplied by the German delegation show that the effect of the economic crisis quickly showed itself in the revenue receipts of the German budget, and that falling off in revenue became progressively more pronounced until, at the present time, it has assumed catastrophic proportions. This is well indicated by the fact that the yield from the assessed income tax, which in 1929 amounted to 1,440 million reichsmarks, will fall in the current year to below 1 milliard reichsmarks, while for 1932 it can only be estimated at 700 million reichsmarks. This means a decline of over 50 per cent. since 1929. Similarly, the Corporation Tax, which yielded 560 millions in 1929, is estimated to produce only 300 million reichsmarks in 1931, and only 120 million reichsmarks in 1932, representing a decline of nearly 80 per cent. Although the German Government has resorted to a series of emergency measures to increase taxation, they have been entirely unable to produce sufficient revenue to meet normal expenditure, which has, therefore, had to undergo sweeping reductions. So far as the Reich is concerned, expenditure on all objects other than service of the debt, transfers to the Federal States, external war burdens and emergency relief has been reduced from 1929 to 1931 from 4.780 million reichsmarks to 4.150 million reichsmarks, *i.e.*, a reduction of 13 per cent. Measures similar in character have been taken by the Federal States and by the communes. The latter have been empowered to make reductions, and in any cases where this power has not been

taken advantage of, the competent higher authority steps in to see that the necessary measures are taken. Part of the economies effected have, however, been offset by the increased cost of unemployment relief due to the growth of unemployment in the last two years. It has been possible to effect considerable economies in this sphere by reducing the average monthly benefit paid to the unemployed, which, from a former average of 80.93 reichsmarks has fallen to 63.86 reichsmarks in 1931. Expenditure under the emergency relief system which averaged 71 reichsmarks a month has dropped to 60.75 reichsmarks, while welfare relief payable by the communes—varying according to the locality—may be estimated probably in the neighbourhood of 50 reichsmarks.

In the opinion of the sub-committee the above figures show very clearly the ruthless economy which the falling off in revenue has compelled the German Government to exercise in all classes of its expenditure.

The sub-committee thereafter turned to an examination of the sketch budgets for the years 1931 and 1932 which had been circulated by the German delegation and explained by Count Schwerin von Krosigk to the main committee. The sub-committee analysed the figures contained in these sketch budgets in some detail.

Taking first the sketch budget for 1932 as it has been framed by the German delegation and which, at the request of the experts, does not contain any item of expenditure which is or might be the consequence of payment of reparations, the sub-committee noted that the principal measure introduced by the emergency decree of the 8th December on the revenue side was an increase in the turnover tax from 0.85 per cent. to 2 per cent., *i.e.*, an increase of over 130 per cent. The yield of the tax had, however, been increased only by 100 per cent. The German Finance Ministry had thus allowed for a falling off in the theoretically increased yield of 14 per cent. Since, however, the recent emergency decree also contemplates a general reduction in the price level of 10 per cent., the theoretical reduction in yield may not be much more than $5\frac{1}{2}$ per cent.

The sub-committee then turned to an examination of the estimates of revenue for the fiscal year 1932.

Under full reserve of the difficulty of giving exact estimates in present conditions, the German member of the sub-committee presented certain figures which proved that, against an increase of certain taxes (mainly the increased turnover tax), others showed a decrease in yield which was about equal to the estimated increases.

The sub-committee felt unable, with the knowledge at their disposal, to criticise the estimates prepared by the German taxation experts. Nevertheless, they formed the opinion that the figures before them could not be considered as showing the situation in an unduly pessimistic light. As far as some sources of revenue are concerned there seems to be even serious reason to fear that the estimated figure will not be reached.

Turning to the estimates of expenditure, the German member of the sub-committee explained that internal war charges would be reduced in 1932 because the recipients of war pensions were fewer in numbers and because under recent decrees the rates of payments had been reduced. Expenditure on personnel was reduced as an effect of the new emergency decree. Miscellaneous expenditure maintained the reduction effected for the present year under recent emergency decrees, and it was doubtful whether this hope would be realised even though the fall in prices would give some assistance.

As regards social charges, the German member of the sub-committee referred to the explanations he had already given to the main committee as to the danger

of reducing the amounts paid for unemployment and poor relief, and showed that it was incumbent upon the Reich to provide those municipalities which were particularly hard hit by the present crisis with some assistance towards meeting their obligations in this respect. He doubted whether the figure shown in the sketch budget for 1932 would, in fact, be sufficient in view of the continuance of the crisis.

The sub-committee devoted special attention to the item for the public debt. As had been explained in the main committee, the figure of 1,420 million reichsmarks for 1932 contains approximately 870 million reichsmarks, which will go in the reduction of debt. 420 million reichsmarks of this represents the legal sinking fund. A further 350 million reichsmarks represents the amount necessary to cover the deficit remaining from 1930 which had risen solely on the ordinary budget and, in accordance not only with the Fundamental Budget Law of Germany, but also in accordance with all principles of sound public finance, should be covered without delay. The remaining 100 million reichsmarks is in respect of Treasury bonds maturing in 1932.

It was pointed out to the sub-committee that the repayment of this amount of debt during a year of severe crisis represented a very heavy burden on the German budget. Should these figures be fulfilled, approximately one-half of the floating debt would be repaid and one-eleventh of the total debt of the Reich. While this consideration was fully appreciated by the German member of the sub-committee, he pointed out that the situation of Germany was that the budget had exhausted its last resource; should the estimates of taxation prove optimistic or should expenditure have to be incurred in excess of that shown, the German Government would have no recourse save to call upon the amounts included for the reduction of debt, *i.e.*, to incur a further deficit.

Without expressing a definite opinion as to the figure included in the sketch budget for 1932 for redemption of floating debt, which figure, amounting to 870 million reichsmarks, as compared with the total debt of the Reich, seems very considerable, the sub-committee could not but feel, having regard to the alarming increase of the total public debt of Germany shown in the figures given above, that it is vital for the German Government to pursue the firmest possible policy of debt reduction, in order that the burden of debt may not become insupportable, and they consider that the German Government would not be justified unless it included in the budget a substantial provision for this purpose.

The sub-committee has not felt it its duty to offer an opinion as to the probability or otherwise of the estimates laid before them with all reserve on behalf of the German delegation. They consider that the course of the German budget during the last two years has shown how the progressive deterioration in the economic life of Germany has led in due course to a falling off in revenue, which has in time become catastrophic. The sub-committee has no opinion as to the probability or otherwise of an early reversal of the present downward movement in business activity, not only in Germany, but in the whole world. They wish to do no more than to point out that unless this movement is reversed there can be no hope of a recovery in the budget situation, and that even if a speedy reversal should take place, it must be some time before the budget will benefit therefrom and return once more to a sound basis.

Annex V

Report of the Sub-Committee on the Reichsbahn [Not printed]

APPENDIX IV

Report on Military Activities in Germany during the year 1931

Sir H. Rumbold to Sir J. Simon (Received December 21)

No. 1020 [C 9523/845/18]

BERLIN, December 12, 1931

Sir,

I have the honour to transmit herewith a copy of an interesting and exhaustive report on the military activities which have taken place in Germany during the year 1931, prepared by the military attaché. This report was drawn up as Colonel Marshall-Cornwall's contribution to the annual report for this year, but, in view of the importance of the subject, I am sending this copy in advance.

I have, &c.

HORACE RUMBOLD

ENCLOSURE

Colonel Marshall-Cornwall to Sir H. Rumbold

No. 6

BERLIN, December 9, 1931

Sir,

I have the honour to forward the following report on the military activities which have taken place in Germany during 1931:—

1. *Reichsheer Estimates*

Thanks to the continuance in force of the emergency legislation, the army estimates for the current year, which were discussed in the Reichstag last March, were passed almost without amendment, hostile criticism being completely muzzled. After deducting the estimated income, which shows a considerable increase, the total net sum asked for compares with last year's figure as follows:—

	<i>Reichsmarks</i>
1930-31	490,162,450
1931-32	<u>472,772,900</u>
Decrease	17,389,550

A considerable saving was effected through the reductions in pay, carried out in February and July under the Emergency Measures, and further economies have been made in nearly every vote, several headings having been eliminated altogether by the redistribution and simplification of the administrative system, as promised by the Reichswehr Minister last year.

It is satisfactory to note that vote 15 (arms and ammunition) has been reduced by nearly 2 million marks, bringing it down to nearly the 1929 figure. The present figures are, however, still high when compared, for instance, with British expenditure. It is obvious that much of the money voted under this heading is either being illegally used to build up unauthorised war reserves of ammunition, or else it is

being deliberately misappropriated in order to subsidise the armament industry. Quite apart from the Reichsheer estimates, there is a sum of more than 2 million marks paid directly as a subsidy to armament factories; this comes under a special section of the budget headed 'War burdens' ('Kriegslasten').

The demand for 'non-recurrent' expenditure on arms and ammunition is slightly less than last year, but contains one new and interesting item of 750,000 reichsmarks for mechanical fuses for artillery ammunition. This sum is the first instalment of a total of nearly 10 million marks to be spread over a number of years. There can be no doubt that these fuses are intended for anti-aircraft defence—an interesting point when one remembers that Germany is only allowed by the Versailles Treaty to possess sixteen anti-aircraft guns.

One of the few votes to show an increase this year is that for mechanical transport, for which nearly 800,000 reichsmarks more is demanded, a new item being 400,000 reichsmarks for armoured cars, which is additional to 500,000 reichsmarks for the provision of cross-country vehicles.

The details of the military estimates, as compared with the 1930 figures, are given in the form of an appendix.

2. *Higher Command*

The appointment towards the end of 1930 of General von Hammerstein-Equord to be Chief of the Army Command has proved an unqualified success. Although his war record was not particularly brilliant, Hammerstein is a shrewd and sensible leader who has gained the esteem and confidence of the whole Reichsheer. The political under-currents which last year threatened to disturb the discipline and morale of the army have been regulated and checked, and though the sympathies of the younger officers may incline to National-Socialist ideals, there is no doubt that the Reichswehr stands solid behind its leaders as the servant of the constitutional Government.

Since his advent to the chief post in the Army Command General Hammerstein, himself only 53 years old, has consistently carried out the policy of rejuvenating the higher ranks. It is his avowed aim to have no divisional commanders over the age of 55, and this aim he has practically accomplished. The average age of the ten divisional commanders (lieutenant-generals and major-generals) is now only 52, and the oldest of them is 57—the age at which we retire colonels in the British army.

At the end of November General von Kayser, the second oldest officer in the Reichsheer, retired from command of the 2nd Group of Western Divisions at Kassel at the age of 58, being replaced by the energetic and capable commander of the 5th Division, Lieutenant-General Freiherr Seutter von Lötzen.

Another interesting change at the close of the year is caused by the retirement at his own request of General J. von Stülpnagel, the capable officer commanding the 3rd Division (Berlin). General Stülpnagel was previously regarded in the army as the most likely successor to Reye, but was passed over by Hammerstein, and apparently now sees no chance of further promotion. He has retired at the age of only 51.

Of the ten divisional formations of the Reichsheer, all but two have now changed commanders during the past twelve months. One cannot help feeling that political or personal predilections have to a certain extent influenced these changes; granted the desirability of stimulating the flow of promotion, it seems that such frequent infusions of fresh blood must militate against efficiency.

3. *Training and Manœuvres*

Owing to the urgent need for economy, and in view of the fact that fairly extensive manœuvres were held in 1930, it was decided that 1931 could be considered as a 'Kleinübungsjahr', and that no large-scale exercises would take place. Training was therefore confined to the normal three weeks' visit of each unit to a regular training area, followed by combined tactical exercises for reinforced regiments, similar to the brigade training of the British army.

Considerable attention was as usual paid to practising the rapid passage of rivers in the face of an enemy. The River Oder is normally the scene of a number of bridging experiments, and this was also the case this year.

Perhaps the most interesting feature of the annual training was a combined military and naval landing operation, which was carried out at dawn on the 15th July on the Baltic coast, north-west of Swinemünde. A battalion of the 3rd Infantry Regiment, which was on its way from East Prussia to a training area in Saxony, together with a detachment of pioneers, was conveyed from Königsberg to the Pomeranian coast in two hired transports. The troops were landed on the island of Usedom, near Heringsdorf, under a smoke-screen produced by a flotilla of six fast mine-sweeping motor launches. The landing was opposed by troops of the 2nd Division, but was considered to have been effected successfully. During the year the military attaché has attended unit training as follows:—

January: Mountain winter training of ski-ing battalion (19th Infantry Regiment) in Bavarian Alps.

June: Squadron training of 7th Cavalry Regiment in Silesia.

June: Battalion training of 1st Infantry Regiment in East Prussia.

June: Artillery practice camp of 6th Artillery Regiment in Westphalia.

November: Individual training of 10th Infantry Regiment in Saxony.

In November visits were also paid to the infantry school at Dresden and the cavalry school at Hanover.

4. *Armament and Equipment*

Experimental work is continuing in many directions, but very little new equipment has been issued to the troops. Cavalry regiments have been rearmed with a new carbine, but this only represents minor modifications of the 1898 model. Another experimental pattern of the Dreyse air-cooled light automatic has been issued to cavalry units for trial and report, but does not yet seem to have been definitely adopted.

Another interesting novelty is the introduction of a new type of infantry gun, primarily an anti-tank weapon. Such an innovation being contrary to the Versailles Treaty, the gun is issued to the troops in the guise of a wooden dummy ('Holzattrappe'). That is to say, the gun-barrel and the shanks of the split trail are of wood, the rest of the carriage, shield, sights and laying gear being the genuine steel article. Assuming that the gun-barrels can be manufactured secretly and stored in the regimental magazines, it would only require a few hours' work to equip every unit of the Reichswehr with effective and modern anti-tank weapons. This ingenious form of trickery merely illustrates the futility of many of the treaty restrictions.

In addition to this anti-tank gun, an improved close-support gun is under trial for issue to infantry regiments, to replace the existing minenwerfer.

In Germany, as in other countries, trials have been in progress with a view to

lightening the weight carried by the infantry soldier. The German infantryman at present carries 57 lb. in fighting and marching order; it is hoped to reduce this weight by 1½ lb.

Apart from the above innovations, the equipment of the Reichswehr remains out of date. Even the 1918 pattern of anti-gas respirator is still in use by many units, although the 1924 model has been in production for some time. In this, as in other cases, the Reichswehr Ministry appears to be following a policy of using up old war stocks of arms, ammunition and equipment, while they are either building up large reserves for future use, or satisfying themselves as to the suitability of each new design before committing themselves to the production stage.

The latter hypothesis may be true of the unauthorised weapons, such as tanks, heavy artillery and aircraft, but in other directions it looks as if fresh stocks are being accumulated for the future. Mention has been made in paragraph 1 of the credits set aside for the provision of mechanical time fuses. In the manufacture of these fuses, which are undoubtedly intended for anti-aircraft purposes, Germany is technically in advance of other countries.

5. *Mechanisation*

During the year under review considerable progress has been achieved in mechanising the Reichswehr. In paragraph 1 of this report attention has been drawn to the increased credits demanded for the mechanical transport vote, including considerable expenditure on the provision of new armoured cars and cross-country vehicles. There is, of course, no legal objection to this, but the case is otherwise when we take note of the radical alterations which are taking place in organisation. The official Rangliste, which appeared in May 1931, proved that in each of the 3rd, 4th, and 5th Divisions one horse transport squadron had been mechanised and transferred to the mechanical transport unit of the same division; there is documentary evidence indicating that the same process is going on in other divisions, and it appears that artillery batteries have this year been mechanised in excess of the number authorised. In the last six years more than 2 million marks have been spent in mechanising the artillery. The bridging companies of pioneer battalions have also been mechanised.

The Rangliste also shows that the headquarters of the 4th Horse Transport Unit has been converted into a mechanical transport training centre ('Kraftfahr-Lehrstab') in Berlin. These changes in army organisation directly contravene articles 160 and 176 of the Versailles Treaty, as well as the detailed instructions of the Inter-Allied Military Control Commission, which Germany by article 204 was bound to accept.

Other changes in the organisation of the Transport Inspectorates and Ordnance Department of the Reichswehr Ministry indicate that particular attention is being concentrated on a thoroughgoing mechanisation of the army.

6. *Fortifications and Works*

In the last annual report attention was drawn to a new block vote of 30 million marks, to be spread over a series of years, for the specific purpose of improving the fortifications of the eastern frontier. Last year's instalment of this extraordinary credit has been increased this year to 2½ million marks, a very large amount, especially as it must be added to the sum of over 3 million marks granted by way of ordinary expenditure under Vote 17 for the same purpose. These large credits call for explanation in view of article 180 of the treaty, which lays down that 'the

system of fortified works of the southern and eastern frontiers of Germany shall be maintained in its existing state'.

The matter is rendered more serious by reports which have recently reached the military attaché that new concrete works have been constructed this year on both banks of the River Oder between Breslau and Glogau. This, if true, directly contravenes article 180 and also the more specific Paris agreement of the 31st January, 1927.

Apart from fortifications, very large sums of money have again been spent on the construction and rebuilding of barracks. During the military attaché's visits to Münster and Königsberg during the last summer, he was struck with the vast and expensive-looking barracks just completed or under construction at those places. In this year's estimates 800,000 reichsmarks are demanded as first instalment of a total sum of 1,900,000 reichsmarks to build new barracks at Munich for the headquarters and one company of the 7th Mechanical Transport Unit. It must make the German taxpayer writhe to see nearly 2 million marks expended on new barrack construction in Munich, where there is already a superfluity of vast barracks inherited from the old Bavarian army; only a few mild protests have appeared in the press. Yet the German Government has not satisfactorily disposed of the superfluous barracks which it has pledged itself to alienate.

7. *Organisation*

It has come to the military attaché's notice that considerable modifications in the organisation of the Reichsheer have taken place during the past year. Batteries of artillery, bridging companies and horse transport squadrons are being progressively converted to a mechanised basis, wireless companies have been added to the establishment of divisions, while there is a strong suspicion that the 4th squadron of each cavalry regiment has developed into a machine-gun unit. All the above changes follow the normal trend of modern military development, but all unfortunately infringe the limitations of the Versailles Treaty.

In the Reichswehr Ministry itself several important developments have taken place. The Army Ordnance Department ('Heeres-Waffenamt') has undergone a thorough reorganisation, and, in order to keep abreast with the march of modern science, three new sections have been created, dealing respectively with mechanisation, signals and 'statistics'. The 'Statistische Gruppe' sounds an innocent enough institution, but when one discovers that of the four officers attached to it, three are experienced air pilots and the fourth has a technical engineering diploma, one is tempted to presume that this section deals with aircraft constructional development.

Another significant change is that of the 'Inspektion der Verkehrstruppen' (which included both horse and mechanical transport) to 'Inspektion der Kraftfahrtruppen'. Supervision of the horse transport troops has now been handed over to the Inspector of Cavalry.

The institution of a mechanical transport training centre in Berlin ('Lankwitz') has already been referred to in paragraph 5.

8. *Discipline and Political Tendencies*

As a result of the trial and conviction in October 1930 of the young artillery officers from Ulm, on the charge of conspiring with the National Socialist party to foment political unrest in the army, the Reichswehr Minister and General von Hammerstein were subjected to a storm of abuse from ex-officers and others of National Socialist sympathies. On the 29th January, General Hammerstein issued

a firmly-worded circular to all active and retired general officers, pointing out the disloyalty of criticising the higher command and the consequent danger to the discipline of the army; he threatened to withdraw from offending officers the privilege of wearing their old uniforms. This circular appears to have had a salutary effect. Criticism of the higher command has ceased, and Reichsheer officers are now most discreet in discussing politics. Although it is certain that most of the younger officers sympathise with Nazi ideals, expressions of political views are discouraged and seldom indulged in. The 'political lectures' formerly given to officers and cadets have now been discontinued, and both Dr. Groener and General Hammerstein appear to have succeeded in ridding the Reichswehr of political dissensions.

At the other end of the scale Communist propaganda has been very active among the troops. Thousands of subversive pamphlets and handbills have been distributed in barracks all over the country and handed to individual soldiers. A number of arrests have been made and the offenders handed over to justice for trial on the charge of high treason. To such a pitch had the nuisance grown that the Reichswehr Ministry in November issued an official communiqué on the subject, pointing out the severer penalties for such offences enacted by an emergency decree of the 6th October.

In general this flood of Communist propaganda appears to have had little effect on the troops. A curious incident occurred, however, in November, when a cadet, named Eberhardt, at the Dresden Infantry School, was arrested on the charge of spreading Communist doctrines. The case has not yet come up for trial, but may lead to interesting disclosures. The military attaché, who visited the infantry school shortly after this incident, was assured by the commandant that the case was an entirely isolated one.

The fact that the rank and file are forbidden to dabble in politics does not, however, preclude the higher command from taking an active interest in this subject. During October Lieutenant-General von Schleicher, the 'political general' and right-hand man of the Reichswehr Minister, had two lengthy conversations with Adolf Hitler; the official communiqué published on the subject of these talks was obviously misleading. It is evident that the circumspect Schleicher, last year an ardent opponent of the Nazis, is now trimming his sails to a possible change of the political wind.

The assumption in October by Dr. Groener of the Ministry of the Interior as well as that of Defence has effected a concentration of force in the hands of the Cabinet, and has as a corollary tightened up the military control of the whole country. It looks as if the military authorities aim at regaining that ascendancy in the State which they enjoyed under the Imperial régime.

9. *Relations with Foreign Countries*

(a) *Russia*.—The relations between the German and Soviet Russian military authorities remain somewhat of a mystery. Such co-operation as exists is purely on the basis of reciprocal benefit, but it appears that relations have been less cordial of late, and there have certainly been fewer exchanges of visits between senior staff officers of the two countries. The practice of seconding German officers in order to practise flying in Russia, prevalent from 1927 to 1930, seems to have recently ceased. There are certainly no German officer instructors attached to the Soviet army. A new German unofficial military representative, Colonel Köstring, has been sent to Moscow. The cooling off of German-Soviet relations may be in part

attributed to the violent propaganda campaign directed against the Reichswehr by the Communist party.

(b) *Italy*.—Franco-Italian naval rivalry, and the somewhat tactless utterances of Signor Mussolini regarding treaty revision, have tended to promote among German chauvinists a hope of military support from south of the Alps. Colonel Fischer and another staff officer of the Reichswehr Ministry were invited to attend the Italian autumn manoeuvres, and professed themselves as much impressed by what they saw. During Signor Grandi's visit to Berlin in October, General von Hammerstein was twice invited to dinner to meet him. The Reichswehr officer's team which won the jumping competitions in Rome and Florence this summer met with a very enthusiastic welcome.

(c) *United States of America*.—Cordial relations are maintained between the two armies, a regular exchange of officers being kept up; there are two American officers undergoing the equestration course at the German cavalry school, while two German artillery officers (one an experienced air pilot) are attached for a year to schools of instruction in the United States.

(d) *Great Britain*.—The British military attaché has met with the most friendly treatment, and has been permitted to visit any unit or establishment. The German military authorities appear to be disappointed that they were not encouraged this year to send another officer for an attachment to the British army. As usual, a large contingent of Reichswehr officers attended the air display at Hendon.

(e) *France*.—Relations between the French and German armies have grown steadily worse. The Reichswehr Ministry was deeply offended by a series of offensive and inaccurate articles published in the 'Echo de Paris' by General Tournès, the late military attaché, immediately after his departure from Berlin. This tactless procedure, naturally, made things difficult for Tournès' successor. On the 18th April occurred the still more tactless and unfortunate incident at Königsberg (East Prussia), when the French assistant military attaché and two officers of the French Intelligence Service were arrested for photographing a new anti-aircraft predictor within the precincts of the artillery barracks. As a result of this indiscretion, Commandant de Mierry has been recalled to France. Present relations between the French and German military authorities continue to be strained, an unfortunate situation, which is aggravated by the almost weekly discoveries of espionage in Germany by agents of the French Intelligence Service.

(f) *Other Countries*.—Poland remains the *bête noire* of the German military mind. The feeling of animosity is a product of the claim to moral and cultural superiority coupled with a sense of the military and political disadvantages imposed by the treaty.

As a corollary to the Polish enmity, close military co-operation exists with Lithuania, as testified by a frequent interchange of military visits. Czechoslovakia is tolerated, while relations with Austria and Hungary are close and cordial. In November a Hungarian military delegation conveyed to President von Hindenburg his nomination as Colonel-in-chief of a Honved Infantry Regiment.

Friendly relations and an interchange of officers are also maintained between the Reichswehr and the armies of Sweden, Switzerland and Holland.

10. *Patriotic Associations and Nationalist Movements*

The past year has been marked by a recrudescence of the 'Wehrgeist', which, though nominally a movement for self-defence, becomes easily transmuted in the German mind into a desire to kick over the traces. This urge for self-expression

finds its outlet in two directions: the Stahlhelm Bund and the National Socialist movement.

The Stahlhelm, as a patriotic organisation, has much to commend it, and one cannot help feeling that most decent Britons, were they Germans of to-day, would be Stahlhelmers. The movement, which originally developed out of a defensive league of property owners against Spartacist revolutionary outbreaks, formulates a sane patriotism with the idea of consolidating the orderly elements of society against Bolshevik ideas. It combines an association of war veterans, akin to the British Legion, with a younger branch of higher military potential, which may be likened to something between our Boy Scouts and Territorial Army. During the year under review the Stahlhelm has been careful to avoid illegal military activities, their main effort of the year being devoted to a somewhat provocative gathering held at Breslau on the 31st May. This parade was attended by 140,000 uniformed Stahlhelmers from all parts of the country. In the course of his address to the parade, the 1st League-leader, Franz Seldte, announced that the Stahlhelm would continue its activities until all surrendered German territory was won back for the Reich. Although the Reichswehr Minister and other spokesmen of the Government have always denied that the Stahlhelm organisation had any military significance, a Polish journalist was, six months after the Breslau rally, tried, convicted and imprisoned for having spied on the proceedings, being condemned on the charge of having betrayed the national interests. The logic of such a verdict is scarcely intelligible to any but a German mind.

Somewhat different in their organisation and aims from the Stahlhelmers are the 'Shock Detachments' (Sturm-Abteilungen) of the National Socialist movement. In October a combined rally was held at Harzburg with a view to consolidating the activities of the two organisations, but this proved a failure owing to internal jealousies and divergent political aspirations. The Sturm-Abteilungen contain in their ranks a number of rowdy hooligans, who are apt to break away from the control of their somewhat wild and irresponsible leaders. They maintain a ceaseless and sanguinary warfare against Communists, Jews and other so-called internal enemies of Germany. Interesting revelations came to light in November regarding the functions of Sturm-Abteilungen and 'Landeswehren' in Hesse in the event of a Nazi *coup d'état*.

There is no doubt that the National Socialists, if they obtained control of the Government, might be tempted to use their irregular forces as a kind of Fascist militia or G.P.U. for the enforcement of internal reforms. These irregulars are not, however, capable of acting in defiance of the Reichswehr, nor can they be regarded as a serious reserve force to the German army in the event of war.

A third organisation which indulges in a certain amount of semi-military training is formed by the Reichsbanner, a democratic association designed to defend republican ideals against the parties of the extreme Right.

Looked at dispassionately, we may regard all these associations as expressions of the innate Germanic urge to be marshalled in mass and to march to the sound of a drum. So long as these various societies continue to be actuated by divergent ideals, which prevent their combination, they cannot be considered as a danger to Germany's neighbours or to the world's peace. Their mutual rivalries, indeed, afford a certain measure of safety.

11. Conclusion

The past twelve months have been marked by a gradual, but quite distinct, stiffening of the military spirit in Germany. The impulse of the National Socialist

aspirations, which have captured the youthful and more vigorous elements, the tightening of Government control by means of emergency legislation, and the increased concentration of power in the hands of the Reichswehr Minister, have brought about a general, if in part reluctant, acquiescence in military dictation. As instances may be cited the cessation of effective criticism of military expenditure and the subservience of civil tribunals to military policy in trials for 'Landesverrat'.

A carefully nourished propaganda campaign on the subject of Germany's right to rearm has been launched in the wake of this stirring national consciousness, directed, of course, with an eye to the coming Disarmament Conference.

With this revival of militarist sentiment there has developed recently a tendency to ignore the restrictions of the Versailles Treaty. Official documents disclose frequent violations of the military clauses with scarcely an attempt at concealment; paragraphs 4, 5, 6, and 7 of the foregoing report contain a string of indictments in this respect.

It has been said that a coach and horses can be driven through most treaties; it is certain that the Germans have driven something more formidable in the way of mechanical transport through the Treaty of Versailles. It is becoming a question whether these infractions do not now call for official protest on the part of the other signatory Powers; a further doubt exists whether such protests *could* be effectively enforced if disregarded.

At the same time it would be unfair to exaggerate the menace of the infractions hitherto committed. The Germans have so far done nothing more serious than modernise to a slight degree their equipment and organisation so as to keep abreast of the times, especially as regards their transport and communication services. What they have effected may be justifiably regarded as designed purely for self-defence. Petty restrictions engender petty evasions, and it seems short-sighted to insist on the maintenance in perpetuity of galling limitations which may have seemed desirable in a previous generation. The time must be nearly ripe for the replacement of these really ineffective restrictions by a more broad-minded settlement based on mutual acceptance and obligations.

On the other hand, it is a fact that the military clauses of the treaty have definitely denied to Germany the possibility of menacing her neighbours, and it is doubtful what alternative, involving less repressive restrictions, could be rendered equally effective. The danger of sitting too long on a boiler unprovided with a safety valve must, however, also be considered.

After four years' contact with and observation of the Reichsheer the military attaché cannot regard that army as a present danger to any neighbouring Power. The officers are undoubtedly well trained in theory and the men are fine human material. Practical training is, however, carried out on rigid lines, the troops get no collective experience with modern weapons, and the higher commanders, who are frequently changed, have little opportunity of handling large formations. The whole system labours under a sense of artificial restriction which has certainly hampered its free development.

There are evident signs, though, that a change of system is not only meditated but is being actively prepared. New weapons are being tested and their manufacture organised; reserve stocks of ammunition are being accumulated and new methods of transport and communication developed. So far it has proved impossible to do much in the way of training illegal reserves of man-power, but the patriotic associations have successfully upheld the military tradition and fostered the fighting spirit. The danger is not imminent, but it is throwing its shadow ahead.

Infractions of the treaty restrictions have lately become more frequent and less concealed; one wonders whether this does not denote the thin end of the wedge which will split the whole fabric of the treaty. The next few months may see a new and more active political orientation in Germany, and the movement for liberation once launched will be difficult to arrest. It seems advisable to reflect whether we can continue to suppress Germany's potential military power by methods which ultimately rest on the deployment of superior strength.

I have, &c.

J. H. MARSHALL-CORNWALL,
Colonel, G.S., Military Attaché

APPENDIX to ENCLOSURE

German Army Estimates 1931-32 compared with 1930-31 (Recurrent Expenditure)

	1931-32 Reichsmarks	1930-31 Reichsmarks	+ or -
1. Army Directorate	9,268,700	9,768,700	—
2. Pay and allowances (including field training)	205,200,650	214,667,350	—
3. Educational establishments	9,989,050	10,159,940	—
4. Administration	22,368,750	23,392,050	—
5. Supplies	19,672,650	22,150,350	—
6. Clothing	27,255,700	28,256,700	—
7. Accommodation	40,149,000	39,117,300	+
8. Administration of army buildings . . . . .	..	26,950	—
9. Movements	5,136,000	5,307,300	—
10. Spiritual welfare . . . . .	..	237,050	—
11. Judge Advocate's Branch . . . . .	..	13,650	—
12. Medical service	4,056,900	3,838,950	— [sic]
13. Veterinary service	2,176,800	2,261,800	—
14. Remount service	8,568,000	8,412,000	+
15. Arms, ammunition, material	66,739,050	68,469,050	—
16. Administration of ordnance depots	11,575,200	11,751,210	—
17. Pioneers and fortifications	11,332,350	11,494,350	—
18. Mechanical transport service	15,480,950	15,055,300	+
19. Signal service	8,800,200	8,900,200	—
20. Miscellaneous	1,777,950	1,666,750	+
Total recurrent expenditure	469,547,900	484,669,300 ¹	—
21. Non-recurrent expenditure (for detail see below)	27,174,000	28,575,150	—
	496,721,900	513,244,450	—
Reduced under emergency legislation by	4,500,000	10,700,000	—
	492,221,900	502,544,450	—
Deduct income	19,449,000	12,382,000	+
Net estimates	472,772,900	490,162,450	—
In addition for Reichswehr Minister	1,048,600	1,059,300	—

Detail of Vote 21 (Non-Recurrent Expenditure)

1. Army Directorate	60,000	60,000	
2. Educational establishments	145,000	145,000	
3. Supplies	10,000	70,000	—
4. Accommodation	9,519,300	6,783,000	+
5. Administration of army buildings	10,000	20,000	—
6. Movements	405,000	405,000	
7. Medical service	204,200	75,000	— [sic]
8. Veterinary service	200,000	100,000	+
9. Arms, ammunition, material	11,229,100	11,260,000	—
10. Administration of ordnance depots	461,400	485,700	—
11. Pioneers and fortifications	3,400,000	3,400,000	
12. Mechanical transport service	900,000	500,000	+
13. Signal service	400,000	400,000	
14. Miscellaneous	230,000	4,871,450	—
	27,174,000	28,575,150	—

¹ This figure should read 484,946,950, with consequent changes in the three other totals under this main heading to 513,522,100, 502,822,100 and 490,440,100.

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